

# Council of the Isles of Scilly

## Statement of Accounts

2010-11

Subject to Audit

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## Explanatory Foreword

This foreword is not formally part of the Statement of Accounts and is not subject to the statutory requirements for an audit opinion or for certification by the Chief Financial Officer. It is primarily to provide the reader of the accounts with a concise and understandable guide to the most significant aspects of the Authority's financial performance, year end financial position and cash flows.

## The Adoption of International Financial Reporting Standards (IFRS)

This year's Statement of Accounts is the first to present financial information in line with IFRS. This is a suite of accounting standards used across the world. IFRS is the international equivalent of the Financial Reporting Standards (FRS) used until now in the UK.

Readers will find the accounts have changed significantly with new statements, disclosure notes, accounting treatments and more. They are also significantly longer, but as a Local Authority we have a complex story to tell and the new layouts will help this. The main changes are shown in the following table.

Overview of main changes from United Kingdom Generally Accepted Accounting Practice (UKGAAP) to IFRS

	Significant IFRS Changes	Substantially the Same
Financial Statements	New statements and amended layouts. More flexibility - detail can be in the statements or the notes; terminology can be amended; and the order of the statements can be changed to suit the Authority.	New formats consistent with those used in the SORP where this is possible and helpful.
Purchase of goods and services	None.	Everything.
Salaries and Pensions	Untaken holiday pay and similar items accrued for at year end.	Everything else.
Government Grants and Contributions	Capital grants recognised immediately (unless there are conditions) rather than being deferred and matched to expenditure	Only the same for capital grants if there are conditions
Revenue Grants	Accrued if conditions. Moved via the MiRS to earmarked reserves if no conditions.	Only for grants with conditions.
Property, Plant and Equipment (Fixed Assets)	More emphasis on component accounting than under UK GAAP. Impairments taken initially to the Revaluation Reserve rather than Income and Expenditure – like revaluation losses. New class of 'assets held for sale'.	Everything else. Expenditure that can be capitalised under IFRS remains unchanged.

	Significant IFRS Changes	Substantially the Same
Leases	90% test to separate finance and operating leases removed. Property leases classified and accounted for as separate leases from land and buildings. Need to assess whether other arrangements contain the substance of a lease.	Everything else.  IFRS retains the concept of the finance lease / operating lease distinction, and the tests carried out to classify leases are substantially the same.
Financial Instruments	None – IFRS is identical to UK previous accounting standards.	Everything.

The new accounts make it easier to identify whether the Authority has made a surplus or deficit compared to its budget (and Council Tax) for the year. This hasn't been easy to identify in the past as the financial statements follow accounting standards rather than local government legislation, however, the new Movement in Reserves Statement gives this information.

Changes have also been included with the creation of the Comprehensive Income and Expenditure Statement (CIES). It combines both the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses (STRGL). The Surplus or Deficit on Provision of Services is the equivalent to the Income and Expenditure Account under the SORP. Other Comprehensive Income and Expenditure includes unrealised gains and losses (e.g. revaluation of land and buildings), and is the equivalent of the STRGL under the SORP.

Members will have previously approved some of the transfers to or from earmarked reserves shown in the Movement in Reserves Statement. The increase or decrease on the General Fund balance which is shown in this Statement would also normally be reported as part of the outturn report, although it might have been described as the surplus or deficit for the year.

A loss shown in the CIES is an indication that the costs of providing this year's services have not been covered by income, which will need to be funded by taxpayers in future years.

An overall increase in usable reserves despite a loss being shown in the CIES normally means that there is a corresponding change in unusable reserves as for example Minimum Revenue Provision (MRP) charges are replaced with depreciation and impairment. The difference will be reflected in the Capital Adjustment Account.

Unusable reserves such as the Capital Adjustment Account and the Pensions Reserve will need to be funded in the future, even if it is over a long period, so increases in these balances show an increasing burden on future taxpayers.

Whilst the financial statements under IFRS (other than the Movement in Reserves Statement) still don't provide a direct comparison with the budget, one of the new notes to the financial statements – on segmental reporting – can provide a bridge between budgets and the financial statements.

## Segmental Reporting Note

A new note ‘Amounts Reported for Resource Allocation Decisions’ (Note 22) provides a direct link to the way the Authority manages its resources. The note is based on internal management structures and includes expenditure and income broken down by Committee. The disclosure starts off by showing outturn information, and includes a line for support service recharges.

The cost of services that used to form part of the Income and Expenditure Account now appears in the CIES, and forms part of the Surplus or Deficit. Under IFRS this figure might be different from under the SORP because of changes to the accounting for capital grants. Previously, these were credited to services to match depreciation (deferred grants). Capital grants are now credited to taxation and non-specific grant income as they are received (i.e. not matched with depreciation). This means that service lines won’t include capital grant income, also that the Surplus or Deficit might be more ‘lumpy’.

## Reserves

Reserves – including the General Fund and the Housing Revenue Account – are an indication of the resources available to an Authority to deliver services in the future.

A new note sets out the movements in balances to help readers to understand reserves – especially the General Fund and the HRA – they can see how the balances have changed over the year, whether the balances are still adequate and what the balances mean in terms of future budgets and services.

Information on the level of reserves can be found in the Balance Sheet and related notes, and in the Movement in Reserves Statement and related notes. This latter statement is more useful in explaining the changes that have taken place during the year, including contributions to and from earmarked reserves.

The Balance Sheet remains under IFRS, and the layout is also very similar to the SORP’s Balance Sheet. One difference is that the minimum requirements under IFRS are less detailed than under the SORP. For example, only one line is required for property, plant and equipment – although more details than this can be shown if required.

With a few exceptions (a new line for assets held for sale, and the cash line now including ‘cash equivalents’), the top half of the Balance Sheet (assets and liabilities) looks very similar to the SORP Balance Sheet.

The bottom half of the Balance Sheet (reserves) is where the main changes have occurred. Not all reserves can be used to deliver services, and the statement of accounts reflects this by reporting reserves in two groups – ‘usable’ and ‘unusable’. Usable reserves such as the General Fund and earmarked reserves are those where members will be involved in deciding on the levels maintained, and their use. Unusable reserves such as the Revaluation Reserve and the Capital Adjustment Account are not subject to such influence.

## Cash Flows

The final statement required in the statement of accounts is the Cash Flow Statement. Although similar to the SORP Cash Flow Statement, the cash flows of an Authority are presented over fewer headings under IFRS than under the SORP. Consequently, the statement is quite short as the minimum presentation is used. A key difference now is that the statement balances to the movement in 'cash and cash equivalents', not just to the movement in cash.

## Revenue Outturn to Budget

Each year the Council sets its budget taking into account known, planned and estimated income and liabilities from various sources. The new CIES shows the outturn on an accounting basis and that differs from how the Authority actually monitors its budgets during the year. The new IFRS compliant accounts contain a note that reconciles the outturn between the accounting basis and the management or budget basis. The note does not provide a comparison to budget and that is shown below.

The outturn for 2010/11 is as follows:

Committee	Approved Budget £000's	Actual £000's	2010/11 Includes Non Cash Adjust- ments (MiRS)		Adj Outturn £000's	(Under)/ Over spend £000's
Health, Overview & Scrutiny	3	4	0		4	1
General Purposes	1,352	1,402	(62)		1,340	(12)
Community Services	992	4,244	(3,342)		902	(90)
Transport Strategy Select	16	36	0		36	20
Policy & Resources	1,233	1,261	(30)		1,231	(2)
Children & Young People's Services	498	276	95		371	(127)
Licensing	20	16	0		16	(4)
Planning & Development	213	227	(18)		209	(4)
Sea Fisheries	23	29	0		29	6
Tourist Board	200	158	2		160	(40)
Standards	4	6	0		6	2
Non Distributed Costs/(Gains)	0	(1,439)				
<b>Net Expenditure by Committees</b>	<b>4,554</b>	<b>6,220</b>	<b>(3,355)</b>		<b>4,304</b>	<b>(250)</b>
Trading Services and Investment Properties		(166)				
<b>For Info: Reconciliation to Net Cost of Services line in CIES</b>		<b>6,054</b>				



## Explanation of Budget Variances

The outturn for 2010/11 compared to the full year estimated budget has resulted in an under spend of £250,000. The significant budget variances by committee are summarised below.

### General Purposes Committee including Trading Services

The committee under spent by £12,000. The main areas were as follows:

- A £53,000 over spend on Coastal Protection has arisen because of a change in the way that grants were allocated for past capital expenditure. The variance has no overall impact on the general fund.
- A £10,000 over spend on Environmental Health as a result of higher than budgeted Professional, Technical and Administration charges to the budget to reflect officer time spent on this service.
- The outturn on the Airport was worse than expected consisting of higher than expected depreciation, a change to the allocation of capital grants removed a credit and lower operating income. The airport reserve has met £70,000 of this over spend.
- The Fire & Rescue Services over spent by £55,000 as a result of higher than expected staff costs due to training, call outs and equipment maintenance costs.
- Offsetting the over spending budgets were a number of budgets that under spent including the incinerator where the depreciation charge was £115,000 lower than budgeted and £43,000 lower due to a change in the way that grant are allocated for past capital expenditure.
- The remaining budget variation is comprised of small under and over spends within individual budgets.

### Community Services Committee

The Community Services Budget under spent by £90,000. There were a number of budget variations both over and under budget and they were as follows:

As there are a number of budgets within this committee the variations can be grouped as follows:

- Adult Social Services budgets over spent by £60,000 compared to their full year estimate. This consisted of £15,000 less income due a grant that was budgeted for but not received in full. Third party payments to care providers were £44,000 higher than budgeted. An under spend on supplies and services by £37,000 and £18,000 more on staff costs for residential care. The balance is variations on other budgets including £15,000 over spend on Professional, Technical and Administrative Services charges.
- Housing Benefits budget under spent by £45,000 to budget reflecting the variable nature of costs.
- The Fitness Centre over spent by £10,000 as a result of lower than expected income and higher Professional, Technical and Administrative Services charges.
- Commercial Property under recovered income by £39,000 as a result of a change in the way that leases income must now be accounted for as repayment of interest and principal.

- The remaining budget variation is comprised of small under and over spends within individual budgets.

### **Transport Select Committee**

The committee over spent by £20,000 to budget as a result of additional officer time recharges to the committee for the year on transport related projects. The PT&A recharges are budgeted within the Policy & Resources Committee and there was an overall under spend to budget.

### **Policy & Resources Committee**

The Policy & Resources Committee under spent by £2,000 compared to budget. The main areas were as follows:

- The Community Safety budget under spent by £35,000 as expenditure was deferred pending uncertainties about the future funding of the service.
- Local Land charges under spent by £36,000 due to a one off grant received to compensate the Authority for the revocation of the personal search fee of the local land charges register.
- Democratic Representation and Management under spent by £62,000 as a result of lower than expected Professional, Technical and Administrative Services charges. Senior officer time was diverted to other projects including the new school build and transport projects during the year.
- Corporate Management budgets under spent by £71,000. Lower than expected Professional, Technical and Administrative Services charges, as noted above, contributed £24,000 of the under spend, £41,000 on corporate training and professional fees budgets and the balance on lower than expected internal accommodation recharges.
- The Emergency Planning service under spent by £9,000 as a result of staff cost savings.
- The remaining budget variation is comprised of small under and over spends within individual budgets.

### **Children and Young People's Committee**

Overall Children's Services were £127,000 under spent against budget in 2010/11. Ignoring re-charges that account for £10,000 of this sum, the significant variances arise from:

- £51,000 within the Post 16 Opportunities budget. This funding arose following the disbandment of the Learning & Skills Council and associated transfer of staff and transport costs. However, the transfer did not take place, thus producing this under spend.
- £45,000 within the Early Years budget. £35,000 of this relates to the Children & Young People's Grant that was altered and un-ring fenced during the financial year. Due to other ring-fenced grants being received such as Targeted Mental Health in Schools (£95,000) and Disabled Children's Access to Childcare (£59,000), it was more prudent to utilise these funds and therefore, the £35,000 under spend was realised. The other £10,000 relates to the Child Poverty Grant (Area Based Grant) which was not utilised as the work was undertaken in-house for 2010/11.
- £20,000 within the Special Educational Support budget. This under spend has mainly arisen due to savings being realised as the work was taken in-house during 2010/11.

- The remaining budget variation is comprised of small under and over spends within individual budgets.

### **Sea Fisheries**

The over spend to budget has resulted from higher than budgeted accommodation and Professional, Technical and Administration (PT&A) recharges. The PT&A recharges are budgeted within the Policy & Resources Committee. The remaining budget variation is comprised of small under and over spends within individual budget lines.

### **Tourist Board**

The Tourist Board under spent by £40,000. The main areas were as follows:

- The Committee includes the income and expenditure for the tourism brochure that is shown later in the Statement of Accounts under Trading Accounts.
- The Tourist Information Centre budget under spent and this resulted from savings made on publication dispersion and the Tourism Officer vacant post. These were offset by the additional cost of a Value Added Tax under declaration in relation to previous years' errors that was repaid.

### **Housing Revenue Account (HRA)**

The Housing Revenue Account (HRA) is a record of revenue expenditure and income relating to the Authority's housing stock. Its primary purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants.

Consequently, the HRA is a statutory account, ring fenced from the rest of the General Fund, so that rents cannot be subsidised from council tax (or vice versa). The ring fence is controlled by Schedule 4 to the Local Government and Housing Act 1989.

During 2010/11 a number of changes have occurred that have resulted in a significant reduction in the value of the stock held. These are:

- Land and Buildings now separated for valuation and accounting - The introduction of componentisation under IFRS means that land and buildings are now separated for valuation purposes and recorded as separate values within the accounts.
- Adjustment Factor Reduced – The Valuation Office carries out an annual review of the value of the Authority's HRA properties. To arrive at the fair value of the properties the valuer uses a special valuation method including a regional adjustment factor. This valuation method reflects that sitting tenants enjoy lower rents than open market rents, and tenants' rights including Right to Buy. The regional adjustment factor for the South West has reduced significantly in 2010/11 from 44% to 31%.
- Remaining Lives Reduced – Until the introduction of IFRS the Authority accounted for the useful life of HRA properties as up to 80 years. Under the new accounting rules the lives have now been reduced to 55 years.

The £3 million revaluation reduction shown on the HRA does not ultimately cost the HRA that sum as it is reversed out prior to any transfers to or from the HRA reserves. However, it is recorded in the HRA Income and Expenditure Account so that readers are aware of the changes to property values.

The government has announced that it wishes to abolish HRAs in the future and to return the stock, finances and financial risks, some of which are underwritten by the government at present, to local authorities. We will be considering the options open to us this year.

The HRA reserve received a contribution of £36,000 for 2010/11. In addition a contribution of £1,000 was made to the HRA Earmarked Reserve and £18,000 to the Major Repairs Account.

## Capital

The Authority has had a busy capital programme during 2010/11 and spent over £9 million developing, building and enhancing its assets.

Committee	2010/11 £000's
Children & Young People	7,912
Planning	9
Technical Services	396
Community Safety	11
Airport	62
Fire & Rescue	48
Policy & Resources	210
Community Services	484
<b>TOTAL</b>	<b>9,132</b>

Type	£000's	%
Grant	8,711	95.4%
Revenue	59	0.7%
Reserves	158	1.7%
Housing Reserves	58	0.6%
Borrowing permissions	108	1.2%
Prudential Borrowing	38	0.4%
<b>Total</b>	<b>9,132</b>	<b>100.0%</b>

Key highlights of the capital programme include:

- The construction of a new £16 million school funded mainly by the government is 'Building Schools for the Future' programme on St Mary's that is due for completion in the summer of 2011.
- Commencement of the building of a four court sports hall with additional grant funding secured from Sport England that is due for completion in the autumn of 2011.

- The purchase of heavy plant to assist in the processing of waste consists of a swing shovel and waste fragmenter. The purchases are part of a four year £6 million funding stream from The Department of the Environment, Fisheries and Rural Affairs (DEFRA) to improve the waste management infrastructure of the Islands.
- Commencement of a scheme to install a lift in the Park House Residential Home to enable care of patients with dementia within the establishment.
- Completion of the enclosure of the swimming pool.
- Purchase of a Dial-a-Ride electric bus to provide transport for eligible residents.
- Initial works to develop a project for the regeneration of the Porthcressa area of St Mary's.

A key element of the capital programme is that the majority of it is funded by third party cash grants. The minor elements that have been funded by 'borrowing' have not resulted in the requirement for new loans but have been funded from current cash reserves.

## **Reserves and Balances**

The Authority sets aside funds for specific and general purposes. These are known as useable reserves. An analysis of the Movement in Reserves Statement (MiRS) shows the change in all reserves including earmarked reserves, those sums set aside for specific purposes, for 2009/10 and 2010/11.

The statement shows that there has been a contribution to General Fund reserve of £159,000 in 2010/11 after a net drawing from earmarked reserves of £166,000 (£167,000 General Fund Earmarked plus a £1,000 contribution to the HRA reserves). See Note 6 on page 46 for full details of the movement in those reserves.

The statement now includes, under IFRS requirements, a new reserve for unapplied revenue grants. These sums would have previously been recorded on the balance sheet as creditors. This change provides greater clarity to enable the monitoring of the sums of un spent grant that have been set aside for future uses.

## **Adequacy of Balances**

The Authority holds a General Fund to meet unexpected cost pressures that may fall on it. In the Medium Term Financial Strategy (MTFS) it was determined that a General Fund Minimum Reserve level of £626,000 would enable the Council to cope with unforeseen matters that may arise. The actual General Fund balance is £1.743 million as at 31 March 2011 (See the Movement in Reserves Statement 2010/11 on page 19).

In addition the Authority also holds £6.033 million of other usable Reserves. However, whilst this may seem significant they are not necessarily sufficient. For example the water and sewerage earmarked reserve of £1.2 million would not be sufficient to meet the costs of replacing the current infrastructure in full.

## **Valuation of Unit 6 Porthmellon Industrial Estate, St Mary's**

A unit at the Porthmellon industrial estate was purchased in 2009/10 by the Authority. The unit was not formally valued prior to purchase but has now been formally valued at £115,000. The purchase price of the unit was £100,000.

## **Accumulated Absences**

A new unusable reserve has been added to the Balance Sheet under IFRS. The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund from accruing for annual leave entitlement and time worked in excess of contracted hours.

The account records the value of the leave and is uplifted each year in line with cost of living and other increases to pay so that it accurately records the financial liabilities of leave taken in future periods.

The account shows £132,000 liability for untaken leave that was owed to employees as at 1st April 2009. The significant jump in 2009/10 arose because the recording of time worked in excess of contracted hours was only recorded in sufficient detail to be included in the accounts during the year.

The balance of £184,000 on the reserve as at 31 March 2011 consisted of 790 days of annual leave entitlement untaken and 5,842 hours worked in excess of contracted hours as at 31 March 2011.

## **Pensions Reserve**

As an Authority we are required to maintain a pensions reserve within our Balance Sheet. The reserve is termed 'unusable' as it is not cash backed but contains book entries of future potential liabilities of our pension fund.

Public Sector pensions have featured heavily in the media over the last year as the government has sought to review and reform what it sees as a significant cost to tax payers in the medium and long term.

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). The CPI index is generally lower than the RPI index as it excludes certain costs within the calculation of the index. This change has had the effect of wiping some £1.439 million future liability from our reserve. The change has no cash impact and therefore no impact upon the General Fund in this year. However, this change along with other proposed changes including higher employee contributions and later retirement ages may change our employer pension contributions in the future.

## Material Charges in the Accounts

### Borrowing Facilities and Capital Borrowing

- We have not taken out any new external loans during 2010/11.
- We have continued to repay our existing debt to the Public Loans Works Board. The profile of the loans shows that we will repay our existing debts by 2019.
- We did not exceed our capital boundary during the year and future capital investment aspirations will be investigated thoroughly within our Capital Strategy.

## Significant Write Offs and Provisions

We account for income when it is due and not when it is paid so from time to time we need to consider, following debt recovery action, whether certain debts will be paid. During the year a number of debts to the value of £96,000 were written down in the accounts (impaired) to reflect that they would not or could not be expected to be received.

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation. The following provisions have been set aside in our Statement of Accounts 2010/11:

- As we are a small Authority we rely on purchasing specialist services from a number of sources including our nearest neighbouring Authority Cornwall Council. A provision of £108,000 has been set aside for amounts we think we owe to that Authority but have yet to be billed. The sum set aside will be used to meet the costs should they arise in the next period.
- Fire pay settlement – We continue to carry a provision of £30,304 for the Fire and Rescue service in respect of the payments for back pay arising as a result of the Fire Brigade Union Employment Tribunal cases in relation to the Part Time Workers (Prevention of Less Favourable Treatment) Regulations 2000. A settlement agreement was reached in principle with the Fire Brigades Union. The provision has been based on estimates provided by the Local Government Employers Association of the financial implications arising from the agreement. It was expected that negotiations would be finalised and the payment made during the course of 2010/11 but that date has now slipped and the provision carried over to 2011/12.

## Material Events after the Reporting Date

No issues have arisen that need to be highlighted.

## **A Thank You to the Finance Team**

The preparation of the 2010/11 Statement of Accounts, the first under the new IFRS requirements, has taken a considerable amount of extra time, effort, commitment and expertise to complete by our small finance team and Symbiont Services Ltd. The workload was significantly increased due to the extensive restatements, new disclosures and presentation required. It is a credit to them that they managed to complete the restatement and preparation of the 2010/11 accounts on time and I would like to thank them for all their hard work.

## **Conclusions**

The outturn has been better than expected and has enabled the Authority to make a contribution to General Fund reserves of £159,000 in 2010/11 after a net drawing £166,000 from earmarked reserves.

Despite cut backs to government grants the Authority was able to set a balanced budget for 2011/12. However, close monitoring will be required to ensure that our planned budget remains on track. A revision to the Medium Term Financial Strategy (MTFS) will be taking place during the autumn 2011 and will set out the financial plan for the next 3 years.

**Peter Lawrence**  
**Director of Finance and Resources**  
**June 2011**



## Statement of Responsibilities and Certification of the Statement of Accounts

The following statement describes the respective responsibilities of the Council of the Isles of Scilly and the Council's Director of Finance & Resources for the accounts.

### The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority that officer is the Director of Finance and Resources.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

### The Director of Finance and Resources' Responsibilities

The Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) / The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Finance and Resources has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code.

The Director of Finance and Resources has also:

- Kept proper accounting records which are up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

## Certification

*by the Director of Finance & Resources*

I certify that in my opinion the Statement of Accounts presents a true and fair view of the financial position of the Council of the Isles of Scilly as at 31 March 2011, and its income and expenditure for the year then ended.

The Accounts were authorised for issue to the Council on the date below.

**Peter Lawrence MA ACA**  
Director of Finance & Resources  
Date:

*by the Chairman of the Council*

I confirm that these accounts were approved by the Full Council.

**Mike Hicks**  
Chairman of Council  
Date:

## Further Information

Further information about these accounts is available from the Finance & Resources Department, Council of the Isles of Scilly, Town Hall, St. Mary's, Isles of Scilly, TR21 0LW. Interested members of the public have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection is advertised at the appropriate time of year.

## Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The 'surplus or (deficit) on the provision of services' line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement (CIES). These are different from the statutory amounts required to be charged to the General Fund Balance and Housing Revenue Account for Council Tax setting and dwellings rent setting purposes. The 'Net increase / (Decrease) before transfers to earmarked reserves' line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

### Movement in Reserves – 2009/10

	£000's	General Fund Balance	General Fund - Earmarked	Housing Revenue Account	HRA - Earmarked	Capital Receipts Unapplied	Major repairs Account	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
Balance as at 31 March 2009		1,555	4,828	248	85	274	286	115	7,391	17,067	24,458
Surplus/ (deficit) on the provision of services		(473)	0	398	0	0	0	0	(75)	0	(75)
Other Comprehensive Income and Expenditure		(14)	53	(452)	0	0	0	0	(413)	(1,174)	(1,587)
<b>Total Comprehensive Income and Expenditure</b>		<b>(487)</b>	<b>53</b>	<b>(54)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(488)</b>	<b>(1,174)</b>	<b>(1,662)</b>
Adjustments between Accounting Basis and Funding Basis under Regulations		590	0	184	0	0	(67)	104	811	(878)	(67)
<b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>		<b>103</b>	<b>53</b>	<b>130</b>	<b>0</b>	<b>0</b>	<b>(67)</b>	<b>104</b>	<b>323</b>	<b>(2,052)</b>	<b>(1,729)</b>
Transfers to/(from) Earmarked Reserves		(74)	109	(118)	19	0	131	0	67	0	67
<b>Increase/(Decrease) in 2009/10</b>		<b>29</b>	<b>162</b>	<b>12</b>	<b>19</b>	<b>0</b>	<b>64</b>	<b>104</b>	<b>390</b>	<b>(2,052)</b>	<b>(1,662)</b>
<b>Balance as at 31 March 2010</b>		<b>1,584</b>	<b>4,990</b>	<b>260</b>	<b>104</b>	<b>274</b>	<b>350</b>	<b>219</b>	<b>7,781</b>	<b>15,015</b>	<b>22,796</b>

Note

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**Movement in Reserves – 2010/11**

£000's	General Fund Balance	General Fund - Earmarked	Housing Revenue Account	HRA - Earmarked	Capital Receipts Unapplied	Major repairs Account	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
Balance as at 31 March 2010	1,584	4,990	260	104	274	350	219	7,781	* 14,928	22,709
Surplus/ (deficit) on the provision of services	9,555	0	(3,275)	0	0	0	0	6,280	0	6,280
Other Comprehensive Income and Expenditure	0	68	0	0	0	0	0	68	2,582	2,650
<b>Total Comprehensive Income and Expenditure</b>	<b>9,555</b>	<b>68</b>	<b>(3,275)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,348</b>	<b>2,582</b>	<b>8,930</b>
Adjustments between Accounting Basis and Funding Basis under Regulations	(9,696)	0	3,362	0	0	(12)	(19)	(6,365)	6,353	(12)
<b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>	<b>(141)</b>	<b>68</b>	<b>87</b>	<b>0</b>	<b>0</b>	<b>(12)</b>	<b>(19)</b>	<b>(17)</b>	<b>8,935</b>	<b>8,918</b>
Transfers to/(from) Earmarked Reserves	300	(235)	(51)	1	0	30	(33)	12	0	12
Increase/(Decrease) in 2010/11	159	(167)	36	1	0	18	(52)	(5)	8,935	8,930
<b>Balance as at 31 March 2011</b>	<b>1,743</b>	<b>4,823</b>	<b>296</b>	<b>105</b>	<b>274</b>	<b>368</b>	<b>167</b>	<b>7,776</b>	<b>23,863</b>	<b>31,639</b>

Note

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\* Includes a Prior Period Adjustment of £87,000 now recognising the Fire Fighters' Pension liability and Reserve

## Comprehensive Income and Expenditure Statement

This Statement shows the economic cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2009/10				2010/11			
Gross Expenditure £000's	Gross Income £000's	Net Expenditure £000's		Gross Expenditure £000's	Gross Income £000's	Net Expenditure £000's	Note
147	(170)	(23)	Central Services	577	(233)	344	
2,345	(859)	1,486	Cultural, Environmental & Planning Services	2,257	(927)	1,330	
4,301	(3,921)	380	Children's & Education Services	4,546	(4,231)	315	
410	(24)	386	Fire & Rescue Services	448	(11)	437	
184	(109)	75	Highways, Roads & Transport Services	164	(70)	94	
292	(760)	(468)	Housing Services	4,049	(805)	3,244	
1,060	(262)	798	Social Services	1,050	(283)	767	
1,823	(39)	1,784	Corporate & Democratic Core	961	(2)	959	
3	0	3	Court Services	3	0	3	
0	0	0	Non Distributed Costs	(1,439)	0	(1,439)	33.2
<b>10,565</b>	<b>(6,144)</b>	<b>4,421</b>	<b>Net Cost of Services</b>	<b>12,616</b>	<b>(6,562)</b>	<b>6,054</b>	22
			<b>Financing and Investment Income and Expenditure:</b>				
47	0	47	Interest Payable and Similar Charges	27	0	27	
			Pensions Interest Costs and Expected				
215	0	215	Return on Pension Assets	153	0	153	
0	(33)	(33)	Interest and Investment Income	0	5	5	
360	(33)	327	Investment Properties	14	(13)	1	
2,020	(1,864)	156	(Surplus)/Deficit on Trading Services	1,984	(1,819)	165	23
			<b>Taxation and Non-Specific Grant Income:</b>				
0	(1,320)	(1,320)	Demand on the Collection Fund	0	(1,392)	(1,392)	
0	(623)	(623)	General Government Grants - Revenue	0	(602)	(602)	28
0	(1,313)	(1,313)	General Government Grants - Capital	0	(8,699)	(8,699)	28
0	(1,802)	(1,802)	Non-Domestic Rates	0	(1,992)	(1,992)	
<b>13,207</b>	<b>(13,132)</b>	<b>75</b>	<b>(Surplus)/Deficit on the Provision of Services for the Year</b>	<b>14,794</b>	<b>(21,074)</b>	<b>(6,280)</b>	
			Surplus or Deficit on Revaluation of Non-Current Assets			(17)	
		(2,052)	Movement on Collection Fund and Other Balances			(35)	
		(41)	Actuarial Gains or Losses on Pension Assets and Liabilities			(2,598)	
		3,680					
<b>13,207</b>	<b>(13,132)</b>	<b>1,662</b>	<b>TOTAL Comprehensive Income and Expenditure</b>	<b>14,794</b>	<b>(21,074)</b>	<b>(8,930)</b>	

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are unusable reserves, i.e. those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2010 £000's		31 March 2011 £000's	Note
26,644	Property, Plant & Equipment	31,659	7
0	Assets Held for Sale	55	9
123	Investment Properties	68	8
121	Long Term Debtors	84	
<b>26,888</b>	<b>Long Term Assets</b>	<b>31,866</b>	
105	Stocks and Work-In-Progress	114	12
1,646	Debtors	2,277	13
8,072	Cash and Bank	8,695	14
<b>9,823</b>	<b>Current Assets</b>	<b>11,086</b>	
(145)	Short Term Borrowing	(83)	10
(1,905)	Creditors	(1,499)	15
(30)	Provisions	(138)	16
(186)	Accumulated Absences Provision	(184)	
<b>(2,266)</b>	<b>Current Liabilities</b>	<b>(1,904)</b>	
(12)	Long Term Creditors	(5)	10
(436)	Long Term Borrowing	(353)	10
* (6,381)	Liability Related to Pension Schemes	(2,474)	
(4,907)	Capital Grants Receipts in Advance	(6,577)	28
<b>(11,736)</b>	<b>Long Term Liabilities</b>	<b>(9,409)</b>	
<b>22,709</b>	<b>Net Assets</b>	<b>31,639</b>	
<b>Usable Reserves</b>			
1,584	General Fund Balance	1,743	
260	Housing Revenue Account Balance	296	
5,937	Other Usable Reserves	5,736	17
* 14,928	<b>Unusable Reserves</b>	23,864	18
<b>22,709</b>	<b>Total Reserves</b>	<b>31,639</b>	

\* Includes Prior Period Adjustment, recognising the Firefighters' Pension Liability and Reserve

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2009/10 £000's		2010/11 £000's	Note
75	Net (Surplus) or Deficit on the Provision of Services	(6,280)	
(1,646)	Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements	6,484	
2	Adjustments for Items Included in the Net Surplus or Deficit on the Provision of Services that are Investing and Financing Activities	(23)	
<b>(1,569)</b>	<b>Net cash flows from Operating Activities</b>	<b>181</b>	19
<b>(3,554)</b>	<b>Investing Activities</b>	<b>(946)</b>	20
<b>142</b>	<b>Financing Activities</b>	<b>142</b>	21
<b>(4,981)</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>(623)</b>	
(3,091)	Cash and Cash Equivalents at the Beginning of the Reporting Period	(8,072)	
<b>(8,072)</b>	<b>Cash and Cash Equivalents at the End of the Reporting Period</b>	<b>(8,695)</b>	14

## **Note 1     Accounting Policies**

### **1.1 General Principles**

The Statement of Accounts summarises the Authority's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11 (BVACOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Accounts by the Accounts and Audit Regulations 2011.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### **1.2 Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as stock on the Balance Sheet. Exceptions include school balances, and utility bills that are recorded at the date of meter readings.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is provided for and a charge made to revenue for the income that might not be collected.



### 1.3 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts (none existed for the Council of the Isles of Scilly as at the Balance Sheet date), that would be repayable on demand.

### 1.4 Exceptional Items

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

### 1.5 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

In this, the 2010/11 Statement of Accounts, adjustments have been carried out for the adoption of International Financial Reporting Standards as required by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### 1.6 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a

prudent basis determined by the Authority) in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance (Minimum Revenue Provision (MRP)), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

### **1.7 Employee Benefits - Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **1.8 Employee Benefits - Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### **1.9 Employee Benefits - Post Employment Benefits**

Employees of the Authority are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DofE).
- The Local Government Pension Scheme, administered by Cornwall Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned whilst employees work for the Authority.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year as part of the overall payment to the Five Islands School.

### 1.10 The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Cornwall Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of anticipated earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.4% (based on the indicative rate of return on high quality corporate bond [iBoxx Sterling Corporates AA over 15 year Index]).
- The assets of Cornwall Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:

quoted securities	current bid price
unquoted securities	professional estimate
unitised securities	current bid price
property	market value

- The change in the net pensions liability is analysed into seven components:
  - current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees work
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the Cornwall Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### **1.11 Discretionary Benefits**

The Authority has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

#### **1.12 Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### 1.13 Financial Instruments - Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### 1.14 Financial Instruments - Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

#### Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. If the Authority has made any loans it would mean that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest

credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

If the Authority makes any loans to organisations at less than market rates (soft loans) the loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise where an asset is no longer held are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### **Available-for-Sale Assets**

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/ loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise where an asset is no longer held are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

#### **1.15 Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grantor contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **Area Based Grant**

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ring fenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

#### **1.16 Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Authority as a result of past events (e.g. trade marks/patents) are capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### **1.17 Inventories and Long Term Contracts**

The Council holds stocks at its Airport and in its Waste Disposal, Water and Tourism services. The Council holds stores of consumable items so that it can rapidly repair key equipment within the airport, incinerator plant and water installations. Stores have been valued at cost less an allowance for loss in value. The Tourism Office holds stocks of items for resale and these have been valued at the lower of cost or net realisable value.

#### **1.18 Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued on a five year rolling valuation or earlier if the carrying amount does not differ materially with market conditions at the Balance Sheet date.

Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.



Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **1.19 Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards fundamental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### **1.20 The Authority as Lessee**

#### **Finance Leases**

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### **1.21 The Authority as Lessor**

#### **Finance Leases**

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal ie netted off against the carrying value of the asset at the time of disposal and matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### 1.22 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority’s status as a multifunctional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

### 1.23 Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset’s potential to deliver future economic benefits or service potential i.e. repairs and maintenance, is charged as an expense when it is incurred.

The Council operates a de minimus level of £6,000 when capitalising expenditure unless it is creating or enhancing a group of assets, when amounts below this level can be capitalised.

## Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service).

Where decreases in value are identified, they are treated in the following way:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated in the Capital Adjustment Account.

### **Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset's value has fallen. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for in the following way:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### **Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life ie freehold land and certain Community Assets, and assets that are not yet available for use ie assets under construction.

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer currently between 0 to 80 years
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer between 0 – 20 years
- infrastructure – straight-line allocation of between 0 to 40 years.

Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

#### **1.24 Disposals and Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal ie netted off against the carrying value of the asset at the time of disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government . The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow the capital financing requirement. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

## School Assets

The Council is an Education Authority and provides services from a number of fixed sites over the five islands. The main secondary school site on St Mary's is a fully Council owned asset and is included on the Balance Sheet. However, the other school sites are of mixed ownership. The Duchy of Cornwall leases land to the Church of England and the Church of England own the buildings. In some cases the Authority has carried out capital works to improve some of the Church of England sites where grant funding has been provided specifically for schools but this has been treated as Revenue Funded by Capital Under Statute (REVCUS) and therefore not included on the Authority's Balance Sheet.

### 1.25 Provisions, Contingent Liabilities and Contingent Assets

#### Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party, eg from an insurance claim, this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

#### Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

## **Contingent Assets**

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### **1.26 Landfill Allowance Schemes**

Landfill allowances, whether allocated by DEFRA or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measured at the cost of the penalty.

### **1.27 Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

### **1.28 Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.



**1.29 VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

**Note 2      Accounting Standards That Have Been Issued but Have Not Yet Been Adopted**

**Heritage Assets: Impact Of The Adoption Of The New Standard On The 2011/12 Financial Statements**

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) has introduced a change in accounting policy in relation to the treatment of heritage assets held by the Authority, which will need to be adopted fully by the Authority in the 2011/12 financial statements.

The Authority is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Authority, in this case, heritage assets. As is set out above, full adoption of the standard will be required for the 2011/12 financial statements. However, the Authority is required to make disclosure of the estimated effect of the new standard in these (2010/11) financial statements. The new standard will require that a new class of asset; heritage assets, is disclosed separately on the face of the Authority's Balance Sheet in the 2011/12 financial statements.

The authority currently records the values of a few such items as Community Assets (See the next section) so the adoption of this standard will result in a reclassification.

**Community Assets Measurement: Impact of the Change in Accounting Policy on the 2011/12 Financial Statements**

As a consequence of the adoption of FRS 30 the Code added the option for Local Authorities to extend the measurement and disclosures required by heritage assets to community assets; a sub classification of Property, Plant and Equipment in the Balance Sheet. The Authority has opted to change its accounting policy in relation to the measurement and disclosure of community assets in the financial year 2011/12 as it believes that valuation is a better measurement of the economic benefits and service potential of the assets.

The Authority is required to disclose information relating to the impact of this change in accounting policy in the 2011/12 financial statements in a disclosure note to the 2010/11 financial statements.

Community assets are currently held at depreciated historical cost in the financial statements. The carrying amount for community assets at the 1 April 2010 is £80. However, four items were excluded from the accounts and need to be added. These include regalia valued at £5,000 and two globes valued at £24,000 giving a total of £29,000. These historic chairs, which are also owned by the Authority, are expected to be valued under the new rules.

The adoption of the heritage assets standard will mean that these two assets currently classified as community assets within property plant and equipment will be reclassified as heritage assets.

The Code will permit a move to a valuation basis for community assets in 2011/12.

The majority of community assets of the Authority are all land assets which have an unlimited useful life and therefore depreciation is not charged. As this is consistent with the current accounting policy (see Note 1.23 for the Authority's accounting policy regarding Property, Plant and Equipment on page 35) there are no changes to the depreciation charged.

### **Note 3 Critical Judgements in Applying Accounting Policies**

#### **Policies**

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Authority holds a repairing lease for a property and a backlog of repairs is believed to exist but no approved list of repair works has been agreed. There is no sufficient certainty to treat this as a probable contingent asset therefore prudence requires that no adjustments are made in the Financial Statements.

### **Note 4 Assumptions and Estimation Uncertainty about the Future**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or other factors that are otherwise uncertain. Estimates are made by taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

#### **Pensions Liability Local Government Pension Scheme**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets and number of employees in the scheme.

A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.

The effects on the net pension's liability of changes in individual assumptions can be measured, however, the assumptions interact in complex ways. During 2010/11, the Authority's actuaries calculated that the sensitivities of methods and assumptions used would result in the following changes:

- 0.5% decrease in the real discount rates would result in approximately a 10% increase in employer liabilities, £1,237 million.
- 1 year increase in member life expectancy would result in approximately a 3% increase in employer liabilities, £365,000.
- 0.5% increase in salary rate would result in approximately a 2% increase in employer liabilities, £285,000.
- 0.5% increase in the pension increase rate would result in approximately a 7% increase in employer liabilities, £873,000.

## **Note 5     Adjustments between Accounting Basis and Funding Basis under Regulations**

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Authority in the year in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

*See overleaf.*

2010/11  £000's	Usable					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Unapplied	Major Repairs Account	Capital Grants Unapplied	
Adjustment primarily involving the Capital Adjustment Account						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Account						
Charges for Depreciation and Impairment of Non-Current Assets	775	3,362	0	(12)	0	(4,137)
Capital Grants and Contributions Applied	(8,638)	0	0	0	(80)	8,711
Movement in the Donated Assets Account	(10)	0	0	0	0	10
Revenue Expenditure Funded from Capital Under Statute	76	0	0	0	0	(76)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	8	0	0	0	0	(8)
Insertion of items debited or credited to the Comprehensive Income and Expenditure Account						
Statutory provision for the financing of capital investment (MRP)	(190)	0	0	0	0	190
Capital Expenditure charged against the General Fund and HRA Balances	(276)	0	0	0	0	276
Adjustment primarily involving the Capital Grants Unapplied Account						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(130)	0	0	0	61	76
Adjustments primarily involving the Pensions Reserve						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement net of Employer's pension contributions and direct payments to pensioners payable in the year	(1,308)	(1)	0	0	0	1,309
Adjustments primarily involving the Collection Fund Adjustment Account						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	0	0	0	0	0	0
Adjustment primarily involving the Accumulated Absences Account						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(3)	1	0	0	0	2
Total Adjustments	(9,696)	3,362	0	(12)	(19)	6,353

## Comparative figures 2009/10

£000's	Usable					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Unapplied	Major Repairs Account	Capital Grants Unapplied	

Adjustment primarily involving the Capital Adjustment Account

Reversal of items debited or credited to the Comprehensive Income and Expenditure Account

Charges for Depreciation and Impairment of Non-Current Assets	2,516	181	0	(67)	0	(2,697)
Capital Grants and Contributions Applied	(1,216)	7	0	0	0	1,209
Revenue Expenditure Funded from Capital Under Statute	30	0	0	0	0	(30)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	0	0	0	0	0

Insertion of items debited or credited to the Comprehensive Income and Expenditure Account

Statutory provision for the financing of capital investment (MRP)	(226)	5	0	0	0	222
Capital Expenditure charged against the General Fund and HRA Balances	(391)	(9)	0	0	0	400

Adjustment primarily involving the Capital Grants Unapplied Account

Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(104)	0	0	0	104	0
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Adjustments primarily involving the Pensions Reserve

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement net of Employer’s pension contributions and direct payments to pensioners payable in the year

	(71)	(1)	0	0	0	72
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Adjustments primarily involving the Collection Fund Adjustment Account

Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements

	0	0	0	0	0	0
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Adjustment primarily involving the Accumulated Absences Account

Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements

	52	1	0	0	0	(54)
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<b>Total Adjustments</b>	<b>590</b>	<b>184</b>	<b>0</b>	<b>(67)</b>	<b>104</b>	<b>(878)</b>
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## Note 6 Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2009/10 and 2010/11.

	<b>1 April 2009 £000's</b>	<b>Transfers (Out) £000's</b>	<b>Transfers In £000's</b>	<b>31 March 2010 £000's</b>	<b>Transfers (Out) £000's</b>	<b>Transfers In £000's</b>	<b>31 March 2011 £000's</b>
<b>General Fund - Earmarked Reserves</b>							
Schools Fund	249	(5)	58	302	0	68	370
Water reserve	492	0	37	529	(30)	10	509
Sewerage Fund	542	0	80	622	0	77	699
Airport	786	(400)	0	386	(143)	0	243
Capital	207	(26)	0	181	(13)	0	168
Repairs Funds	629	(53)	13	589	0	6	595
Plant fund	58	(1)	25	82	(36)	0	46
Equipment fund	10	0	0	10	0	0	10
Social Care Transport	41	0	0	41	(41)	0	0
Pollution Control Reduction	11	0	0	11	0	0	11
Children's Services	0	0	100	100	0	0	100
Porthcressa Project	0	0	0	0	0	180	180
One-Stop Shop	0	0	0	0	0	20	20
Service Carry-Forwards	104	(104)	165	165	(165)	0	0
Revenue Grants Unapplied Reserve	1,699	0	274	1,973	(375)	274	1,872
<b>Housing Revenue Account - Earmarked Reserve</b>							
Housing Repairs Account	85	0	19	104		1	105
	<b>4,913</b>	<b>(589)</b>	<b>771</b>	<b>5,095</b>	<b>(803)</b>	<b>636</b>	<b>4,928</b>

## Note 7 Property, Plant and Equipment

Movement on Balances 2010/11:

	Council Dwellings £000's	Other Land & Buildings £000's	Vehicles, Plant & Equipment £000's	Infrastructure £000's	Community Assets £000's	Assets Under Construction £000's	Total £000's
<b>Cost or Valuation</b>							
At 1 April 2010	13,444	7,805	1,040	6,397	44	1,312	30,042
Additions	80	445	485	39	0	8,084	9,133
Donated Assets	0	0	10	0	0	0	10
Not Previously Recognised	0	0	17	0	0	0	17
Disposals	0	0	(17)	0	0	0	(17)
Reclassifications	0	249	0	0	0	(249)	0
Revaluations	(3,275)	(28)	0	0	0	0	(3,303)
<b>As at 31 March 2011</b>	<b>10,249</b>	<b>8,471</b>	<b>1,535</b>	<b>6,436</b>	<b>44</b>	<b>9,147</b>	<b>35,882</b>
<b>Depreciation and Impairments</b>							
Accumulated Depreciation & Impairment	(79)	(515)	(767)	(2,023)	(14)	0	(3,398)
Charge for Year	(143)	(326)	(93)	(272)	0	0	(834)
Depreciation on Disposals	0	0	9	0	0	0	9
<b>As at 31 March 2011</b>	<b>(222)</b>	<b>(841)</b>	<b>(851)</b>	<b>(2,295)</b>	<b>(14)</b>	<b>0</b>	<b>(4,223)</b>
<b>Net Book Value at 31 March 2011</b>	<b>10,027</b>	<b>7,630</b>	<b>684</b>	<b>4,141</b>	<b>30</b>	<b>9,147</b>	<b>31,659</b>
<b>Net Book Value at 31 March 2010</b>	<b>13,365</b>	<b>7,290</b>	<b>273</b>	<b>4,374</b>	<b>30</b>	<b>1,312</b>	<b>26,644</b>

**Comparative Movements for 2009/10**

	Council Dwellings £000's	Other Land & Buildings £000's	Vehicles, Plant & Equipment £000's	Infrastructure £000's	Community Assets £000's	Assets Under Construction £000's	Total £000's
<b>Cost or Valuation</b>							
At 1 April 2009	13,282	8,157	937	6,393	30	155	28,954
Additions	31	496	42	18	0	1,157	1,744
Donated Assets	0	0	0	0	0	0	0
Not Previously Recognised	0	40	70	0	0	0	110
Disposals	0	(55)	(9)	0	0	0	(64)
Reclassifications	0	0	0	(14)	14	0	0
Revaluations	131	(833)	0	0	0	0	(702)
<b>As at 31 March 2010</b>	<b>13,444</b>	<b>7,805</b>	<b>1,040</b>	<b>6,397</b>	<b>44</b>	<b>1,312</b>	<b>30,042</b>
<b>Depreciation and Impairments</b>							
Accumulated Depreciation & Impairment	(390)	(1,016)	(672)	(1,754)	0	0	(3,832)
Charge for Year	(196)	(292)	(95)	(269)	(14)	0	(866)
Depreciation on Disposals	0	9	0	0	0	0	9
Reclassifications	0	0	0	0	0	0	0
Revaluations	507	784	0	0	0	0	1,291
<b>As at 31 March 2010</b>	<b>(79)</b>	<b>(515)</b>	<b>(767)</b>	<b>(2,023)</b>	<b>(14)</b>	<b>0</b>	<b>(3,398)</b>
<b>Net Book Value at 31 March 2010</b>	<b>13,365</b>	<b>7,290</b>	<b>273</b>	<b>4,374</b>	<b>30</b>	<b>1,312</b>	<b>26,644</b>
<b>Net Book Value at 31 March 2009</b>	<b>12,892</b>	<b>7,141</b>	<b>265</b>	<b>4,639</b>	<b>30</b>	<b>155</b>	<b>25,122</b>

**7.1 Depreciation**

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Council Dwellings - 0 to 55 years
- Other Land and Buildings - 0 to 80 years
- Vehicles, Plant & Equipment - 0 to 20 years
- Infrastructure - 0 to 40 years

**7.2 Capital Commitments**

At 31 March 2011 the Authority has entered into a contract for the construction of a new school and sports hall, which is to continue into 2011/12. The New School Build Project has a budgeted total cost of £16.538 million, of which there is a remaining commitment to the unspent element of £8.920 million.



### 7.3 Effects of Changes in Estimates

In 2010/11 the Authority made one material change to its accounting estimates for Property, Plant & Equipment. During the revaluation of the Authority's HRA properties the remaining useful lives were reassessed. As a result the depreciation charge for the properties of £87,000 for 2010/11 was £27,000 greater than it would have been if the useful lives assessed in 2009/10 had been used for the calculations. The impact of this change will carry forward into 2011/12 and future years.

### 7.4 Revaluation Decreases

During 2010/11 a number of changes have occurred that have resulted in a significant reduction in the value of the HRA stock held. These are:

- Land and Buildings are now separated for valuation and accounting - The introduction of componentisation under IFRS means that land and buildings are now separated for valuation purposes and recorded as separate values within the accounts.
- Remaining Lives Reduced – Until the introduction of IFRS the Authority accounted for the useful life of HRA properties as up to 80 years. Under the new accounting rules the lives have now been reduced to 55 years.
- Adjustment Factor Reduced – The Valuation Office carries out an annual review of the value of the Authority's HRA properties. To arrive at the fair value of the properties the valuer uses a special valuation method including a regional adjustment factor. This valuation method reflects that sitting tenants enjoy lower rents than open market rents, and tenants' rights including Right to Buy. The regional adjustment factor for the South West has reduced significantly in 2010/11 from 44% to 31%. This has resulted in a Net Book Value on the HRA property of £7.906 million in 2010/11, a decrease of £3.282 million on the previous year.

The £3 million reduction does not ultimately cost the HRA that sum as it is reversed out prior to any transfers to or from the HRA reserves. However, it is recorded in the HRA CIES so that readers are aware of the reduction in property values.

- On valuation the resale market value of Unit 6 Porthmellon Industrial Estate was found to have increased to £115,000 against the original purchase price of £100,000. However the refurbishment costs that were capitalised did not add value pound for pound and a downward valuation of £28,000 has been entered to the opening book value of the asset. The costs of refurbishment were funded by cash grant in 2009/10 so there is no effect on the General Fund.

## 7.5 Valuation Schedule

	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Total
	£000's	£000's	£000's	£000's
Valued at historical cost	0	123	683	806
Valued at current value in:				
2010/11	7,905	0	0	7,905
2009/10	1,864	4,958	0	6,822
2008/09	0	190	0	190
2007/08	0	276	0	276
2006/07	258	2,083	0	2,341
<b>Total Cost or Valuation</b>	<b>10,027</b>	<b>7,630</b>	<b>683</b>	<b>18,340</b>

## Note 8 Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

2009/10 £000's	2010/11 £000's
33 Rental Income from Investment Property	52
(17) Direct Operating Expenses Arising from Investment Property	(13)
<b>16 Net Gain/(Loss)</b>	<b>39</b>

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no ongoing contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

2009/10 £000's	2010/11 £000's
80 <b>Balance at start of the year</b>	123
43 Net Gains/(Losses) from Fair Value Adjustments	0
0 Transfer to Assets Held for Sale	(55)
<b>123 Balance at end of the year</b>	<b>68</b>

## Note 9 Assets Held For Sale

As at 31 March 2011 the Authority had one asset (2009/10 - None) classified as held for sale with a current book value totalling £55,000 (2009/10 £Nil). There is a revaluation gain totalling £5,000 (2009/10 £Nil) recognised as an adjustment to the carrying amount of that asset. The asset is the land at Well Cross.

## Note 10 Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long Term		Current	
	31 March 2010 £000's	31 March 2011 £000's	31 March 2010 £000's	31 March 2011 £000's
<b>Debtors</b>				
Debtors	121	84	1,646	2,277
<b>Total Debtors</b>	121	84	1,646	2,277
<b>Borrowings</b>				
Financial Liabilities at Amortised Costs	428	348	142	80
Accrued Interest	8	5	3	3
<b>Total Borrowings</b>	436	353	145	83
<b>Other Long Term Liabilities</b>				
Finance Lease Liabilities	13	6	13	13
<b>Total Long Term Liabilities</b>	13	6	13	13
<b>Creditors</b>				
Financial Liabilities at Amortised Cost	12	5	(1,905)	(1,499)
<b>Total Creditors</b>	12	5	(1,905)	(1,499)

## Income, Expense, Gains and Losses

	2009/10			2010/11		
	Financial Liabilities at Amortised Costs	Financial Assets: Loans and receivables	Total	Financial Liabilities at Amortised Costs	Financial Assets: Loans and receivables	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Interest Expense	35	0	35	0	0	0
<b>Total Expense in Surplus or Deficit on the provision of services</b>	35	0	35	0	0	0
Interest Income	0	(13)	(13)	0	(39)	(39)
<b>Total Income in Surplus or Deficit on the provision of services</b>	0	(13)	(13)	0	(39)	(39)
<b>Net (Gain)/Loss for the year</b>	35	(13)	22	0	(39)	(39)

### 10.1 Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables, long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- estimated ranges of interest rates at 31 March 2012 of 3% to 5.38% for loans from the PWLB;
- no early repayment or impairment is recognised;
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	Carrying Amount		Fair Value	
	31 March 2010 £000's	31 March 2011 £000's	31 March 2010 £000's	31 March 2011 £000's
Financial liabilities	581	436	637	482
Long-Term Creditors	12	5	12	5
	<b>593</b>	<b>441</b>	<b>649</b>	<b>487</b>

The fair value of the liabilities is higher than the carrying amount because the figures reflect early repayment penalties that would be applied by PWLB should the loans be repaid early.

	Carrying Amount		Fair Value	
	31 March 2010 £000's	31 March 2011 £000's	31 March 2010 £000's	31 March 2011 £000's
Loans & Receivables	0	0	0	0
Long-Term Debtors	13	6	13	6
	<b>13</b>	<b>6</b>	<b>13</b>	<b>6</b>

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

### Note 11 Nature and Extent of Risks Arising from Financial Instruments

The Authority's activities expose it to a variety of financial risks:

- credit risk – the possibility that other parties might fail to pay amounts due to the Authority
- liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services.

Risk management is carried out by the Finance Team, under policies approved by the council in the annual treasury management strategy.

### 11.1 Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. This risk is minimised as investments are only made with the Council's Bankers Lloyds.

Customers for goods and services are generally not credit assessed as the Council has no choice as to who services are generally supplied to. However, for small exchange transactions payment in advance is required.

The Authority's maximum exposure to credit risk in relation to its investments with Lloyds bank has been assessed as minimal.

The following analysis summarises the Authority's potential maximum exposure to credit risk on other financial assets, based on experience of default and uncollectability.

	A	B	C	(A x C) estimated maximum exposure to default and uncollectability at 31 March 2011 £000's	Estimated maximum exposure at 31 March 2011 £000's
	Amount as at 31 March 2011 £000's	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2011 %		
Type					
Customers	344	9.95%	9.95%	34	34
Deposits with Banks and Financial Institutions *	8,694	0.00%	0.00%	0	0

\* Current account balance

The Authority does not generally allow credit to customers and does not credit check its customers as the Council has no choice as to whom services are generally supplied to, such that £252,000 (2009/10: £369,000) of the £344,000 (2009/10: £900,000) balance is past its due date for payment. The past due amount can be analysed by age as follows:

31 March 2010 £000'S		31 March 2011 £000's
40	Less than three months	44
50	Three to six months	34
51	Six months to one year	23
228	More than one year	151
<b>369</b>	<b>Total</b>	<b>252</b>

### 11.2 Liquidity Risk

The Authority manages its cash flow to ensure that cash is available as needed. If unexpected movements happen, the Authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Authority monitors the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure that loans do not all mature at the same time. A policy of careful planning of new loans taken out and (where it is economic to do so) making early repayments is employed. The maturity analysis of financial liabilities is as follows (including accrued interest):

31 March 2010 £000'S		31 March 2011 £000's
145	Less than one year	83
82	Between one and two years	68
178	Between two and five years	164
176	More than five years	122
<b>581</b>	<b>Total</b>	<b>436</b>

All trade and other payables are due to be paid in less than one year.

### 11.3 Market Risk – Interest Rate Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates could have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall.

However, the Authority only has a small portfolio of loans and all are at fixed rates of between 3.00% and 5.38%

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

### 11.4 Market Risk – Price Risk

The Authority does not invest in equity shares and therefore is not exposed to the risk of investment prices rising or falling.

### 11.5 Market Risk – Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

### Note 12 Stock and Inventories

	Consumable Stores		Maintenance Materials		Client Services Work in Progress		Total	
	2009/10 £000's	2010/11 £000's	2009/10 £000's	2010/11 £000's	2009/10 £000's	2010/11 £000's	2009/10 £000's	2010/11 £000's
Opening Balance 1 April	12	9	93	96	0	0	104	105
Purchases	40	27	68	86	0	3	108	116
Recognised as an expense in the year	(43)	(27)	(64)	(80)	0	0	(107)	(107)
Closing Balance 31 March	9	9	96	103	0	3	105	114

### Note 13 Debtors

2009/10 £000's		2010/11 £000's
791	Central Government Bodies	1,150
10	Other Local Authorities	4
0	Public Corporations & Trading Funds	1
784	Other Entities & Individuals	1,122
<b>1,646</b>	<b>Total Debtors</b>	<b>2,277</b>

### Note 14 Cash and Cash Equivalents

31 March 2010 £000's		Movement during the year £000's	31 March 2010 £000's
7,770	Cash Held at Bank	554	8,324
301	School's Local Bank Accounts	69	370
1	Petty Cash	0	1
<b>8,072</b>	<b>Total</b>	<b>623</b>	<b>8,695</b>

### Note 15 Creditors

2009/10 £000's		2010/11 £000's
(1,328)	Central Government Bodies	(1,079)
(190)	Other Local Authorities	0
(67)	NHS Bodies	0
(320)	Other Entities & Individuals	(420)
<b>(1,905)</b>	<b>Total Creditors</b>	<b>(1,499)</b>

**Note 16 Provisions**

	Fire Equal Pay £000's	Services £000's	Total £000's
Balance at 1 April 2010	(30)	0	(30)
Additional provisions made in 2010/11	0	(108)	(108)
<b>Balance at 31 March 2011</b>	<b>(30)</b>	<b>(108)</b>	<b>(138)</b>

A provision of £30,000 was included for the Fire and Rescue service in respect of the payments for back pay arising as a result of the Fire Brigade Union Employment Tribunal cases in relation to the Part Time Workers (Prevention of Less Favourable Treatment) Regulations 2000. A settlement agreement was reached in principle with the Fire Brigades Union. The provision has been based on estimates provided by the Local Government Employers Association of the financial implications arising from the agreement. It was expected that negotiations would be finalised and the payment made during the course of 2010/11 but that date has now slipped and the provision carried over to 2011/12.

A provision of £108,000 has been set aside in relation to amounts owed but that have yet to be invoiced by Cornwall Council for services in relation to Children's Services.

**Note 17 Usable Reserves**

In addition to the General Fund and HRA balances, the Authority maintains the following other usable reserves within its Balance Sheet:

31 March 2010 £000's	Other Usable Reserves	31 March 2011 £000's
219	Capital Grants Unapplied Reserve	167
274	Usable Capital Receipts	274
350	HRA - Major Repairs Reserve	367
104	Earmarked: HRA - Housing Repairs Reserve	105
302	Earmarked: Schools Balances	370
2,715	Earmarked: Service & Project Specific Reserves	2,581
1,973	Earmarked: Revenue Grants Unapplied Reserve	1,872
<b>5,937</b>	<b>Total Other Usable Reserves</b>	<b>5,736</b>

RESERVE	MAIN PURPOSE
Capital Grants Unapplied Reserve	The Reserve (new in 2010/11) holds the accumulated Capital grant funding that has been received by the Authority, but has not yet been allocated against capital expenditure.
Usable Capital Receipts	When an asset is sold a proportion (depending on the asset and the prevailing legislation) can be held for recycling into future capital expenditure. This reserve holds the amount that the Authority has available for that purpose.
Housing Revenue Account & Major Repairs Reserve	Ring fenced along with the HRA, this reserve is loaded by transfers from the Housing Revenue Account and then used or held to fund major capital repairs to the (HRA) Council Housing Stock.
Housing Revenue Account Housing Repairs Reserve	This a separate ring fenced HRA earmarked Reserve for repairs.



RESERVE	MAIN PURPOSE
Earmarked: Schools Balances	This reflects the cash balances held by the School.
Service and Project Specific Earmarked Reserves	Amounts held in these Earmarked reserves, are held for types of expenditure or projects which the Authority wishes to specifically set aside.
Revenue Grants Unapplied Reserve	This reserve holds the Revenue Grants that have been received by the Authority but have not been applied against expenditure as at the Balance Sheet date.

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and Note 6.

### Note 18 Unusable Reserves

2009/10		2010/11
£000's		£000's
1,860	Revaluation Reserve	1,808
19,503	Capital Adjustment Account	24,615
(6,294)	Pension Reserve - LGPS	(2,381)
132	Collection Fund Adjustment Account	99
(186)	Accumulated Absences Account	(184)
(87)	Pension Reserve - Fire Fighters' Pension	(93)
<b>14,928</b>	<b>Total Unusable Reserves</b>	<b>23,864</b>

### 18.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2009/10		2010/11
£000's		£000's
231	Balance at 1 April	1,860
1,705	Upward revaluation of assets	17
<b>1,705</b>	<b>Surplus or deficit on revaluation of non-current assets not posted to the surplus of deficit on the provision of services</b>	<b>17</b>
(76)	Difference between fair value of depreciation and historical cost depreciation	(69)
<b>(76)</b>	<b>Amount written off to the capital adjustment account</b>	<b>(69)</b>
<b>1,860</b>	<b>Balance at 31 March</b>	<b>1,808</b>

## 18.2 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 5 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2009/10 £000's		2010/11 £000's
19,510	<b>Balance at 1 April</b>	19,503
	<b><i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</i></b>	
(1,762)	Charges for depreciation and impairment of noncurrent assets	(4,068)
(30)	Revenue expenditure funded from capital under statute	(76)
(46)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(7)
<b>(1,838)</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(4,151)</b>
	<b><i>Capital financing applied in the year:</i></b>	
1,209	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	8,797
222	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	190
400	Capital expenditure charged against the General Fund and HRA balances	276
1,831		9,263
<b>19,503</b>	<b>Balance at 31 March</b>	<b>24,615</b>

### 18.3 Pensions Reserve – Local Government Pension Scheme (LGPS)

The Pensions Reserve LGPS absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2009/10 £000's		2010/11 £000's
2,686	<b>Balance as at 1 April</b>	6,294
3,680	Actuarial gains or Losses on Pensions Assets and Liabilities	(2,592)
473	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	(582)
(545)	Employer's pensions contributions and direct payments to pensioners payable in the year	(739)
<b>6,294</b>	<b>Balance as at 31 March</b>	<b>2,381</b>

### 18.4 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2009/10 £000's		2010/11 £000's
144	<b>Balance at 1 April</b>	132
(12)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(33)
<b>132</b>	<b>Balance at 31 March</b>	<b>99</b>

### 18.5 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

The account shows £132,000 liability for untaken leave that was owed to employees as at 1st April 2009. The significant jump in 2009/10 arose because the recording of time worked in excess of contracted hours was only recorded in sufficient detail to be included in the accounts during the year.

2009/10 £000's		2010/11 £000's
132	<b>Balance at 1 April</b>	186
(132)	Settlement or cancellation of accruals made at the end of the preceeding year	(186)
186	Amounts accrued at the end of the current year	184
<b>54</b>	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2)
<b>186</b>	<b>Balance at 31 March</b>	<b>184</b>

### 18.6 Fire Fighter's Pension Reserve

The Fire Fighter's Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2009/10 £000's		2010/11 £000's
0	<b>Balance as at 1 April</b>	87
87	Actuarial gains or Losses on Pensions Assets and Liabilities	(6)
0	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	5
0	Employer's pensions contributions and direct payments to pensioners payable in the year	7
<b>87</b>	<b>Balance as at 31 March</b>	<b>93</b>

**Note 19 Cash Flow Statement – Operating Activities**

The cash flows for operating activities include the following items:

2009/10 £000's		2010/11 £000's
(13)	Interest Received	(39)
37	Interest Paid	29
<b>24</b>	<b>Net Cash Flows from Operating Activities</b>	<b>(10)</b>

**Note 20 Cash Flow Statement – Investing Activities**

2009/10 £000's		2010/11 £000's
1,744	Purchase of property, plant & equipment	9,133
201	Repayments of Capital Grants	0
(5,499)	Capital Grants Received - Government	(10,079)
<b>(3,554)</b>	<b>Net Cash Flows from Investing Activities</b>	<b>(946)</b>

**Note 21 Cash Flow Statement – Financing Activities**

2009/10 £000's		2010/11 £000's
0	Cash payments for the reduction of outstanding liabilities relating to finance leases	
142	Repayment of short and long term borrowings	142
	Other payments	
<b>142</b>	<b>Net Cash Flows from Financing Activities</b>	<b>142</b>

**Note 22 Amounts Reported for Resource Allocation Decisions**

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority's Policy and Resources Committee on the basis of budget reports analysed across Committees. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to impairment or revaluation losses in excess of those held in reserve of non-current assets, whereas these are charged to services in the Comprehensive Income and Expenditure Statement
- the cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in the year
- staff leave and the balance on time-off-in-lieu (TOIL) held by individual members of staff, not yet taken are book entries which are charged to the Comprehensive Income and Expenditure Statement, but are not monitored during the year.

The income and expenditure of the Authority's principal Committees recorded in the budget reports for the year is as follows:

<b>Committee Income and Expenditure 2010/11</b>	Children & Young People's Services Committee £000's	Community Services Committee £000's	General Purposes Committee £000's	Policy & Resources Committee £000's	Planning & Development Committee £000's	All Other Committees £000's	Grand Total £000's
Fees, Charges and Other Service Income	(17)	(755)	(44)	(77)	(100)	(49)	(1,042)
Income - Government Grants	(3,912)	(827)	(49)	(75)	(653)	(4)	(5,520)
<b>Total Income</b>	<b>(3,929)</b>	<b>(1,582)</b>	<b>(93)</b>	<b>(152)</b>	<b>(753)</b>	<b>(53)</b>	<b>(6,562)</b>
Employee Expenses	447	1,054	724	1,265	445	103	4,038
Other Service Expenses	3,539	1,247	810	665	448	99	6,808
Support Services	126	(21)	(373)	(534)	87	69	(646)
Charges for the cost of Capital	96	246	193	22	1	0	558
<b>Total Expenditure</b>	<b>4,208</b>	<b>2,526</b>	<b>1,354</b>	<b>1,418</b>	<b>981</b>	<b>271</b>	<b>10,758</b>
<b>Net Expenditure/(Income)</b>	<b>279</b>	<b>944</b>	<b>1,261</b>	<b>1,266</b>	<b>228</b>	<b>218</b>	<b>4,196</b>

<b>Committee Income and Expenditure Comparative 2009/10</b>	Children & Young People's Services Committee £000's	Community Services Committee £000's	General Purposes Committee £000's	Policy & Resources Committee £000's	Planning & Development Committee £000's	All Other Committees £000's	Grand Total £000's
Fees, Charges and Other Service Income	(10)	(714)	(26)	(145)	(224)	(50)	(1,169)
Income - Government Grants	(3,635)	(758)	(108)	(17)	(458)	1	(4,975)
<b>Total Income</b>	<b>(3,645)</b>	<b>(1,472)</b>	<b>(134)</b>	<b>(162)</b>	<b>(682)</b>	<b>(49)</b>	<b>(6,144)</b>
Employee Expenses	359	889	690	1,269	279	94	3,580
Other Service Expenses	3,198	994	919	627	431	76	6,245
Support Services	337	(1,338)	(308)	206	210	167	(726)
Charges for the cost of Capital	130	(440)	291	70	3	16	70
<b>Total Expenditure</b>	<b>4,024</b>	<b>105</b>	<b>1,592</b>	<b>2,172</b>	<b>923</b>	<b>353</b>	<b>9,169</b>
<b>Net Expenditure/(Income)</b>	<b>379</b>	<b>(1,367)</b>	<b>1,458</b>	<b>2,010</b>	<b>241</b>	<b>304</b>	<b>3,025</b>

## 22.1 Reconciliation of Committee Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

<b>Committee Income and Expenditure 2010/11</b>							
	Children & Young People's Services Committee	Community Services Committee	General Purposes Committee	Policy & Resources Committee	Planning & Development Committee	All Other Committees	Grand Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
<b>Net Expenditure/(Income)</b>	<b>279</b>	<b>944</b>	<b>1,261</b>	<b>1,266</b>	<b>228</b>	<b>218</b>	<b>4,196</b>
Pension Adj: Past Service Gain - Non Distributed Gain	0	0	(13)	(1,439)	0	0	(1,452)
<b>Book Entries:</b>							
Add back IAS19 Adjustment for Pensions	(3)	(6)	20	(10)	(2)	0	(1)
Add back untaken leave and TOIL	0	3	1	4	2	(2)	8
Add back Impairment	0	3,303	0	0	0	0	3,303
<b>Net Cost of Service per CIES</b>	<b>276</b>	<b>4,244</b>	<b>1,269</b>	<b>(179)</b>	<b>228</b>	<b>216</b>	<b>6,054</b>
<b>Committee Income and Expenditure Comparative 2009/10</b>							
	Children & Young People's Services Committee	Community Services Committee	General Purposes Committee	Policy & Resources Committee	Planning & Development Committee	All Other Committees	Grand Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
<b>Net Expenditure/(Income)</b>	<b>379</b>	<b>(1,367)</b>	<b>1,458</b>	<b>2,010</b>	<b>241</b>	<b>304</b>	<b>3,025</b>
Pension Adj: Past Service Gain - NDC	0	0	0	0	0	0	0
<b>Book Entries:</b>							
Add back IAS19 Adjustment for Pensions	(30)	(46)	(40)	(87)	(17)	(4)	(224)
Add back untaken leave and TOIL	1	8	7	15	4	1	36
Add back Impairment	(1)	1,559	26	0	0	0	1,584
<b>Net Cost of Service per CIES</b>	<b>349</b>	<b>154</b>	<b>1,451</b>	<b>1,938</b>	<b>228</b>	<b>301</b>	<b>4,421</b>



## 22.2 Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Committee income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

	Committee Analysis £000's	Amounts not reported to management for Decision Making (Book Entries) £000's	Net Cost of Services £000's	Corporate Amounts £000's	(Surplus)/Deficit on the Provision of Services for the year £000's
Fees, Charges and Other Service Income	(1,042)	0	(1,042)		(1,042)
Interest & Investment Income			0	5	5
Income from Council Tax & NNDR			0	(3,384)	(3,384)
Income from Trading Services			0	(1,819)	(1,819)
Income from Investment Properties			0	(13)	(13)
Income - Government Grants	(5,520)		(5,520)	(9,301)	(14,821)
<b>Total Income</b>	<b>(6,562)</b>	<b>0</b>	<b>(6,562)</b>	<b>(14,512)</b>	<b>(21,074)</b>
Employee Expenses	4,038	(1,445)	2,593		2,593
Other Service Expenses	6,808	0	6,808		6,808
Support Services	(646)		(646)		(646)
Charges for the cost of Capital	558	3,303	3,861		3,861
Interest Payable			0	27	27
Pensions interest costs and expected return on pension assets			0	153	153
Costs of Trading Services			0	14	14
Costs re: Investment Properties			0	1,984	1,984
<b>Total Expenditure</b>	<b>10,758</b>	<b>1,858</b>	<b>12,616</b>	<b>2,178</b>	<b>14,794</b>
<b>(Surplus)/Deficit on the Provision of Services for the Year</b>	<b>4,196</b>	<b>1,858</b>	<b>6,054</b>	<b>(12,334)</b>	<b>(6,280)</b>

**Subjective Analysis**  
**Comparative 2009/10**

	Committee Analysis £000's	Amounts not reported to management for Decision Making (Book Entries) £000's	Net Cost of Services £000's	Corporate Amounts £000's	(Surplus)/Deficit on the Provision of Services for the year £000's
Fees, Charges and Other Service Income	(1,169)	0	(1,169)		(1,169)
Interest & Investment Income			0	(33)	(33)
Income from Council Tax & NNDR			0	(3,122)	(3,122)
Income from Trading Services			0	(1,864)	(1,864)
Income from Investment Properties			0	(33)	(33)
Income - Government Grants	(4,975)		(4,975)	(1,936)	(6,911)
<b>Total Income</b>	<b>(6,144)</b>	<b>0</b>	<b>(6,144)</b>	<b>(6,988)</b>	<b>(13,132)</b>
Employee Expenses	3,580	(188)	3,392		3,392
Other Service Expenses	6,245	0	6,245		6,245
Support Services	(726)		(726)		(726)
Charges for the cost of Capital	70	1,584	1,654		1,654
Interest Payable			0	47	47
Pensions interest costs and expected return on pension assets			0	215	215
Costs of Trading Services			0	2020	2,020
Costs re: Investment Properties			0	360	360
<b>Total Expenditure</b>	<b>9,169</b>	<b>1,396</b>	<b>10,565</b>	<b>2,642</b>	<b>13,207</b>
<b>(Surplus)/Deficit on the Provision of Services for the Year</b>	<b>3,025</b>	<b>1,396</b>	<b>4,421</b>	<b>(4,346)</b>	<b>75</b>

**Note 23      Trading Operations**

The reporting requirements for trading accounts are not based on any accounting standard. They instead reflect considerations of stewardship specific to local authorities. Where an Authority is trading and taking commercial risks, then there should be assurance that the Authority is not exposing itself unreasonably to loss.

This note to the accounts discloses the circumstances in which the Authority is exposed to commercial loss and the financial consequences for the year of account.

**St Mary's Airport** - The Authority owns and manages the airport on St Mary's. Income is generated primarily from landing fees. The trading objective is to generate surplus after having covered the cost of capital employed for future reinvestment to ensure continuity of the service, which is held in the earmarked Airport Reserve.

The airport has made a loss this year due to an increase in capital costs, impairment of debts outstanding and variations in certain costs. In addition income has been lower than expected.

**Water & Sewerage Services** - The Authority operates a water and sewerage undertaking on St Mary's and Bryher. The infrastructure includes five reservoirs that are operated and all the water is treated using Ultra Violet light and residual chlorination at the Higher Moors Water Pumping Station. Water is also produced in the Council owned desalinisation plant. The trading objective of the service is to cover costs and generate surpluses to allow for future reinvestment to ensure the continuity, reliability and safety of the service. Surpluses are accumulated in and drawn from two reserves held: The Water Reserve and the Sewerage Reserve. The account has achieved a surplus for 2010/11 that will be taken to the Water & Sewerage Earmarked Reserves.

**The Tourism Brochure** - As tourism is an essential part of the local economy, the Authority works with the Tourist Board and local businesses to produce a single, collective, high quality brochure and website to promote the Islands as a holiday destination. The trading objective of this service is to maximise the income contribution to offset the costs of production, distribution, maintenance and associated activities of this element of destination marketing.

**Trade Refuse Collection and Disposal** - The Authority operates the collection and disposal of refuse from Commercial operations where no local provision is available. The trading objective is to break even after having covered the cost of capital employed. The Authority is seeking to address the deficit in future years as part of a new waste strategy.

2009/10 Net (surplus) /deficit £000's		2010/11		Net (surplus) / deficit - per CIES £000's	Items later reversed out through MiRS	Net (surplus) / deficit £000's
		Expenditure £000's	Turnover £000's			
139	Airport	1,205	(1,075)	130	96	34
(72)	Water & Sewerage	500	(589)	(89)	(1)	(88)
(1)	Tourism Brochure	95	(62)	33	0	33
90	Trade Refuse	184	(93)	91	0	91
<b>156</b>	<b>Total</b>	<b>1,984</b>	<b>(1,819)</b>	<b>165</b>	<b>95</b>	<b>70</b>

(MiRS – Movement in Reserves Statement see page 19)

## Note 24 Members' Allowances

The total amount of allowances and expenses paid to Members during the year was £118,281 (2009/10: £110,822).

## Note 25 Officers' Remuneration

The number of employees, including those employed at the Five Islands School, whose emoluments (excluding pension contributions) was £50,000 or more were:

2009/10	Remuneration Bandings	2010/11
2	£55,000 - £59,999	1
1	£60,000 - £64,999	0
1	£70,000 - £74,999	3
1	£74,999 - £79,999	1
0	£85,000 - £89,999	1
<b>5</b>	<b>Total</b>	<b>6</b>

### Senior Officers emoluments whose annualised salary is between £50,000 and £150,000 per year

The Council has classified the following posts as Senior in line with the disclosure requirements:

Post holder information	Salary (including fees & allowances) £	Election Duties £	Total remuneration excluding pension contributions £	Pension contrib- utions £	Total remuneration including pension contribution £
Chief Executive	87,196	250	87,446	17,408	104,854
Chief Technical Officer	75,619	0	75,619	14,971	90,590
Director of Finance & Resources	70,657	0	70,657	13,926	84,583
Chief Planning Officer	70,657	0	70,657	13,926	84,583
Director of Community Services	56,526	0	56,526	0	56,526 <sup>a</sup>
Director of Childrens' Services	42,394	0	42,394	8,356	50,750 <sup>b</sup>
Chief Fire Officer	20,019	0	20,019	3,953	23,972 <sup>c &amp; d</sup>
	<b>423,068</b>	<b>250</b>	<b>423,318</b>	<b>72,540</b>	<b>495,858</b>

notes below:

- a. The Director of Community Services works 29.6 hrs per week. The annualised salary is £70,657
- b. The Director of Childrens' Services works 22.2 hrs per week. The annualised salary is £70,657
- c. The Chief Fire Officer works 7.4 hours per week as Chief Fire Officer. The annualised salary is £70,657
- d. The Chief Fire Officer works 7.4 hours per week as Air Operator Certificate Accountable Manager (AOC). The annualised salary is £70,657

## Note 26 External Audit Costs

2009/10 £000's	2010/11 £000's
71 External Audit Services	65
13 Inspection Fees	6
4 Grants Claims	5
0 IFRS Rebate	(5)
<b>88 Total</b>	<b>71</b>

## Note 27 Dedicated Schools Grant – Deployment of the Isles of Scilly Education Grant

The Council's expenditure on schools is funded primarily by the Isles of Scilly Education Grant received from the Department for Education.

The Accounting Code of Practice states that Education Authorities should disclose their deployment of Dedicated Schools Grant (DSG). The Council of the Isles of Scilly does not receive a DSG, instead it receives the Isles of Scilly Education Grant which is classified as a separate grant in its own right. The main difference is that the Isles of Scilly Education Grant can be utilised for all Education services, not just Schools Budget items.

Details of the deployment of the Isles of Scilly Education Grant receivable for 2010/11 are as follows:

	Central Expenditure £000's	Individual Schools Budget (ISB) £000's	Total £000's
Brought forward from 2009/10			79
Isles of Scilly Education Grant for 2010/11			2,917
Agreed budgeted distribution of grant in 2010/11	683	2,313	2,996
<i>less</i> Actual central expenditure	(778)	0	(778)
<i>less</i> Actual ISB deployed to schools	0	(2,313)	(2,313)
<i>plus</i> Local Authority contribution for 2010/11	211	0	211
<b>Carry forward to 2011/12</b>	<b>116</b>	<b>0</b>	<b>116</b>

Included in the Central Expenditure column is the central expenditure of the Schools Budget plus other Children's Services budgets, excluding Children's Social Care.

## Note 28 Grant Income

General Grants Credited to the Comprehensive Income and Expenditure Account

2009/10 £000's	2010/11 £000's
416 Revenue Support Grant	289
205 Area Based Grant	313
2 Local Authority Business Growth Incentive Grants	0
<b>623</b>	<b>602</b>

The Authority credited the following grants, contributions and donations within the Net Cost of Services section of the Comprehensive Income and Expenditure Statement in 2010/11:

2009/10 £000's	Credited to Services - Summary by Service Expenditure Area	2010/11 £000's
3,737	Children's Services	3,934
620	Adult & Community Services	512
744	Planning and Economic Development Services	777
457	Central Services	368
75	Environmental Services	78
28	Fire & Rescue Services	1
<b>5,661</b>	<b>Total Grants Credited to Services</b>	<b>5,670</b>

2009/10		2010/11
£000's	Credited to Children's Services	£000's
2,796	Isles of Scilly Education	2,836
208	Sure Start Early Years Childcare	297
168	Post 16 Accommodation & Travel	176
89	6th Form Special Educational Needs	89
138	Standards Funds	117
0	Targeted Mental Health in Schools	95
0	Children & Young People Grant (Department for Children, Schools and Families (DCSF))	88
20	Local Delivery Support Diploma	70
73	Children's Workforce Development Council	62
37	Training & Development Agency	24
65	Youth Opportunities Fund	16
16	RIEP Grant	16
1	Playbuilder	11
11	14 - 19 Prospectus Grant	11
98	Contact Point	9
14	Think Family	0
3	Other Grants	17
<b>3,737</b>	<b>Children's Services Total</b>	<b>3,934</b>

2009/10		2010/11
£000's	Credited to Community Services	£000's
89	Skills Funding Agency	115
198	European Social Fund (ESF Convergence Progressive Isles)	167
91	Concessionary Travel Grants	54
36	Homelessness	31
17	Skills Funding Council (Family Learning)	15
50	Handy Person Funding	70
0	Winter Pressures Grant	10
0	Re-ablement Grant	3
90	Department of Health - Stroke Pathways	9
15	Department of Health - Social Care Reform	9
0	Learning Skills Improvement Service	8
0	Disabled Facilities Grant	7
0	Government Office South West (GOSW) Support Funding	5
0	Scilly Unlimited	4
10	Re-possession Prevention	0
4	Training for Carer Key-workers	0
2	Supporting People Grant	0
0	Mental Health Project (Cornwall)	3
3	Local Housing Allowance	0
15	Other Grants	2
<b>620</b>	<b>Adult &amp; Community Services Total</b>	<b>512</b>

2009/10		2010/11
£000's	Credited to Planning and Economic Development Services	£000's
164	South West Regional Development Agency (SWERDA)	524
130	Natural England	78
0	Land Charges Supplement New Burdens Grant	34
25	English Heritage	33
0	Local Authority Business Growth Incentive (LABGI)	25
22	DEFRA - Animal Welfare	22
34	Climate Change	34
201	Off Islands Quays	0
5	European Regional Development Fund (ERDF)	0
0	Sustainable Development Fund (Tourism)	4
163	Planning Delivery Grant	22
0	Other Grants	1
<b>744</b>	<b>Planning and Economic Development Services Total</b>	<b>777</b>

  

2009/10		2010/11
£000's	Credited to Central Services	£000's
169	Rent Allowances	186
55	Rent Rebates	74
97	Council Tax	73
9	Business Rates Deferral Grant	0
43	Administration Grant	14
0	Planning & Delivery Grant	12
15	Training & Development	0
44	Anti-Social Behaviour	0
25	RIEP Grant	9
<b>457</b>	<b>Central Services Total</b>	<b>368</b>

  

2009/10		2010/11
£000's	Credited to Environmental Services	£000's
3	Anti Social Behaviour	41
0	Waste Disposal (RIEP)	15
50	Highways (Department of Transport)	12
6	DEFRA - Waste Performance & Efficiency	0
1	Safer Communities	0
15	Food Safety	0
0	DEFRA - Flood Risk Assessment	10
<b>75</b>	<b>Environmental Services Total</b>	<b>78</b>

  

2009/10		2010/11
£000's	Credited to Fire & Rescue Services	£000's
13	New Dimensions	0
10	USAR & De-Contamination	0
5	Electrical Testing	0
0	Other Grants	1
<b>28</b>	<b>Fire &amp; Rescue Services Total</b>	<b>1</b>
<b>5,661</b>	<b>Grand Total</b>	<b>5,670</b>

Capital Grants are recognised in the year of receipt, for 2010/11 these were:

2009/10 £000's	Grants Used for Capital Expenditure	2010/11 £000's
0	Colocation Grant (New School Build)	857
5	Contribution From The Duchy Of Cornwall	0
0	Defra Waste Equipment Grant	329
0	Dial-A-Ride Local Action Group Funding	17
0	ERDF - European Regional Development Grant	159
0	European Social Fund (Economic Development)	9
3	Extended Schools (DCSF)	1
100	Fire - Capital Grant	0
0	IOS Educ Grant Nursery Educ 3 & 4 Year Olds	43
0	IOSGrant - Extended Services	37
4	Low Carbon Grants	0
906	New School Build	6,742
8	Normandy Pool - LAG Grant	42
30	Normandy Pool - Sport England Funding	157
58	Planning Delivery Grant	8
0	Play Builder (DCSF)	100
0	Prepaid Housing Support Grant DfES	15
0	Primary Pupil Element	14
0	Safer, Stronger Communities	11
0	SIF - Strategic Investment Framework	30
1	Social Care Reform Grant	0
12	Stroke Care Grant	41
43	Surestart - Early Years	1
39	Youth Capital Grant	25
	<b>Other Capital Grants No Conditions Received in Year</b>	
10	Council Tax - New Burdens	0
7	Disabled Facilities Grant	11
50	Mental Health Development	50
37	Stroke Care Grant	0
<b>1,313</b>	<b>Total</b>	<b>8,699</b>

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the giver.



The balances at the year end are as follows:

2009/10 £000's	Revenue Grants Creditors/Receipts in Advance	2010/11 £000's
	<b>Children's Services</b>	
305	Standards Fund	305
145	SureStart Early Years	202
0	Isles of Scilly Education Grant	116
149	Post 16 accommodation & travel	88
28	Teacher Training Development Agency	28
5	Play - BIG Lottery	5
31	Contactpoint	0
22	Playbuilder	0
16	Information System for Parents & Providers	0
1	Other Grants	0
	<b>Adult &amp; Community Services</b>	
0	Handy Person Funding	106
64	Housing Subsidy	64
0	Mental Health Co-ordinator funding	30
0	Concessionary fares Dial-a-Ride	26
0	Concessionary Fares Grant	18
0	Social Care Reform - Extra Care Housing Fund	11
0	Social Care Reform - Transformation	11
0	GOSW Support Funding	10
8	Gypsy site improvements (housing)	8
0	Sports Development Scilly Unlimited	2
0	Healthy Workplace Grant	2
12	Safer, Stronger Communities	0
9	Housing - Private Sector Decent Homes	0
	<b>Fire &amp; Rescue Services</b>	
0	Fire Brigade - New Dimensions	11
	<b>Environmental Services</b>	
0	Severe Weather Grant - Road Repairs	24
<b>795</b>	<b>Total Revenue Grants Creditors/Receipts in Advance</b>	<b>1,067</b>

2009/10 £000's	Capital Grants Creditors/Receipts In Advance	2010/11 £000's
	<b>Children's Services</b>	
4,214	New School Build Project	6,320
100	DfES - Playbuilder	80
20	Integrated Children's Systems	0
	<b>Adult &amp; Community Services</b>	
0	Housing - Private Sector Decent Homes	16
0	Stroke Care Grant	35
157	Sport England Grant	0
0	Other Grants	3
	<b>Fire &amp; Rescue Services</b>	
34	Operations - Equality & Diversity Training	69
	<b>Environmental Services</b>	
382	DEFRA - Waste Equipment Grant	54
<b>4,907</b>	<b>Total Capital Grants Creditors/Receipts In Advance</b>	<b>6,577</b>

## Note 29 Related Parties

These are material transactions with bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. Disclosure of these transactions allows the reader to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit other parties from bargaining freely with the Council.

### 29.1 Central Government

Central government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (eg council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 22.2 on reporting for resources allocation decisions. Grant receipts outstanding at 31 March 2011 are shown in Note 28.

### 29.2 Members

Members of the Council have direct control over the Council's financial and operating policies. The Council's constitution requires Members to declare their interests in related parties in a register of interests. In addition Members are asked to declare their interests during Committee meetings. During 2010/11, payments of £381,000 were made to companies or organisations in which 17 separate declarations of interest were made by Members in the register and payments of £175,400 were made to companies or organisations in which 10 separate declarations of interest were made by Co-opted Members in the register. These payments were made in compliance with the Council's Financial Regulations.

The Outstanding Balances at the end of the year on accounts for which Members have declared an interest totalled £215,700 for which 13 separate declarations of interest were made. The Outstanding Balances at the end of the year on accounts for which Co-opted Members have declared an interest totalled £61,000 for which 5 separate declarations of interest were made.

Members' allowances are detailed in Note 24 to the accounts.

### **29.3 Officers**

Officers are required to declare their interests in the register of interests and during Committee meetings when in attendance. During 2010/11, payments of £122,300 were made to companies or organisations in which 10 separate declarations of interest were made by Officers in the register. These payments were made in compliance with the Council's Financial Regulations.

Declarations of Interest made during the year at Committee meetings by Members and Officers is available to view on the Council's website in the minutes for each meeting.

No further material transactions have been disclosed.

The Outstanding Balances at the end of the year on accounts for which Officers have declared an interest totalled £1,300 for which 6 separate declarations of interest were made.

Senior officer remuneration is contained in Note 25 to the accounts.

### **29.4 Other Public Bodies [subject to common control by central government]**

Devon and Cornwall Police Authority precept upon the Council for sums collected by the Council Tax. This precept is shown within the Collection Fund (page 98). As a member of the Local Government Pension Scheme, the Council paid employer's contributions to Cornwall County Council during the year. This contribution is shown within Note 33 Local Government Pension Scheme.

The Council also contributes £47,000 per year, under contract, to Scout Enterprises to deliver the Isles of Scilly Local Involvement Network (LINK).

The Council administers the Local Action Group (LAG) fund on behalf of the South West Regional Development Agency (SWRDA). During 2010/11 the LAG has issued grants with conditions to 48 bodies totalling £477,500 of which three grants totalling £57,600 have been issued to the Council of the Isles of Scilly. The Council has also received two payments totalling £37,000 for the management and administration of this project from SWRDA. The outstanding balance at year end is £39,900.

The Council also administers the Strategic Investment Framework (SIF) on behalf of the European Regional Development Fund (ERDF). During 2010/11 no grants have been issued by SIF. The funds have been used for in-house projects in particular the Porthcressa Regeneration Project.

The Council also administers the Strategic Development Fund (SDF) on behalf of Natural England. During 2010/11 SDF awarded grants with conditions to 10 bodies totalling £24,400. The Core Grant is managed by the Area of Outstanding Natural Beauty team (AONB) and is designed to deliver the AONB management plan which includes funding locally based projects and initiatives which includes working in partnership with the Council of the Isles of Scilly. The Funding for the Core Grant Payment is from several awarding bodies and includes; Natural England totalling £91,500, Council of the Isles of Scilly totalling £20,600, Duchy of Cornwall totalling £4,500, Isles of Scilly Wildlife Trust totalling £760, Tresco Estate totalling £3,000 and Island Tourism totalling £1,500. There is an outstanding balance at year end of £62,200.

### Note 30 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed.

2009/10 £000's		2010/11 £000's
5,461	<b>Opening Capital Financing Requirement</b>	5,403
	<b>Capital Investment</b>	
1,814	Property, Plant and Equipment	9,142
30	Revenue Expenditure Funded from Capital under Statute	76
	<b>Sources of Finance</b>	
(1,278)	Government grants and contributions	(8,797)
(400)	Revenue Contribution - General Fund	(275)
(224)	Minimum Revenue Provision	(190)
<b>5,403</b>	<b>Closing Capital Financing Requirement</b>	<b>5,359</b>
	<b>Explanation of Movements in Year</b>	
125	Increase/(Decrease) in underlying need to borrow (supported by Government financial assistance)	108
41	Increase/(Decrease) in underlying need to borrow (unsupported by Government financial assistance)	38
(224)	Repayment of debt	(190)
<b>(58)</b>	<b>Increase/(Decrease) in Capital Financing Requirement</b>	<b>(44)</b>

### Note 31 Leases

#### 31.1 Authority as Lessee

##### Finance Leases

The Authority has a number of sites acquired under finance leases.

The assets acquired under these leases are carried within Property, Plant and Equipment in the Balance Sheet at the following net amounts:

2009/10 £000's		2010/11 £000's
252	Housing Revenue Account	230
266	General Fund Properties	258
493	Other Land & Buildings	490
<b>1,011</b>	<b>Total</b>	<b>979</b>

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

2009/10 £000's		2010/11 £000's
	Finance Lease Liabilities (Net Present Value of Minimum Lease Payments):	
13	Current	13
13	Non-current	6
21	Finance Costs Payable in Future Years	18
<b>47</b>	<b>Minimum lease payments</b>	<b>37</b>

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	2009/10 £000's	2010/11 £000's	2009/10 £000's	2010/11 £000's
Not later than one year	14	14	14	14
Later than one year and not later than five years	31	21	11	4
Later than five years	2	2	1	1
<b>Total</b>	<b>47</b>	<b>37</b>	<b>26</b>	<b>19</b>

The minimum lease payments do not include rent that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010/11 £Nil contingent rents were payable by the Authority (2009/10 £Nil).

The Authority has sub-let some of the assets held under these finance leases. At 31 March 2011 the minimum payments expected to be received under non-cancellable sub-leases was £7,102 (£5,126 at 31 March 2010).

### Operating Leases

The Authority has acquired land and buildings for use by entering into operating leases.

The future minimum lease payments due under non-cancellable leases in future years are:

2009/10 £000's		2010/11 £000's
16	Not later than one year	18
21	Later than one year and not later than five years	7
<b>37</b>	<b>Total</b>	<b>25</b>

None of these leases are sub-let by the Authority.

The expenditure charged to the Cultural, Environmental, Regulatory and Planning Service line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

2009/10 £000's		2010/11 £000's
36	Minimum lease payments	22
<b>36</b>	<b>Total</b>	<b>22</b>

### 31.2 Authority as Lessor

#### Finance Leases

The Authority has a number of sites leased out under finance leases including the museum site and the industrial estate sites.

The Authority has a gross investment in these leases, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the sites when the leases come to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the sites acquired by the leasees and finance income that will be earned by the Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

2009/10 £000's		2010/11 £000's
	Finance Lease Debtor (Net Present Value of Minimum Lease Payments):	
39	Current	37
121	Non-current	84
1,320	Unearned finance income	1,148
457	Unguaranteed residual value of property	335
<b>1,937</b>	<b>Gross investment in the lease</b>	<b>1,604</b>

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	2009/10 £000's	2010/11 £000's	2009/10 £000's	2010/11 £000's
Not later than one year	58	51	39	37
Later than one year and not later than five years	234	205	158	150
Later than five years	1,188	1,013	826	748
<b>Total</b>	<b>1,480</b>	<b>1,269</b>	<b>1,023</b>	<b>935</b>

## Operating Leases

The Authority leases out property and equipment under operating leases for the following purposes:

- for the provision of Community Services, such as sports facilities, tourism services and community centres;
- for economic development purposes to provide suitable affordable accommodation for local businesses.

The future minimum lease payments receivable under non-cancellable leases in future years are:

2009/10 £000's	2010/11 £000's
7 Not later than one year	10
<b>7 Total</b>	<b>10</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010/11 £27,000 of contingent rents were receivable by the Authority (2009/10 £Nil).

## Note 32 Teachers' Pensions

Teachers employed by the Authority are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2010/11, the council paid £134,000 (2009/10 - £129,000) to Capita Teachers' Pensions in respect of teachers' retirement benefits, representing 14% of pensionable pay (2009/10 – 14%). There were no contributions remaining payable at the year end.

## Note 33 Local Government Pension Scheme

### 33.1 Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in the Local Government Pension Scheme, administered by Cornwall Council – this is a funded defined benefit final salary scheme, meaning that the Authority and

employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

### 33.2 Transactions Relating to Post Employment Benefits

We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement (CIES) and the General Fund Balance via the Movement in Reserves Statement (MiRS) during the year:

2009/10 £000's		2010/11 £000's
	<b>Within Cost of Services:</b>	
258	Current Service Cost	547
0	Past Service Gain (Non Distributed Costs)	(1,439)
	<b>Financing and Investment Income and Expenditure:</b>	
(412)	Expected Return on Assets in the scheme	(613)
627	Interest Costs	766
<b>473</b>	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>(739)</b>
	<b>Other Post Employment Benefit Charged to the CIES:</b>	
3,680	Actuarial (Gains) or Losses	(2,592)
<b>3,680</b>	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the CIES</b>	<b>(2,592)</b>

2009/10 £000's	Movement in Reserves Statement	2009/10 £000's
(473)	Reversal of Net Charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	739
	<b>Actual amounts charged against the General Fund Balance for Pensions in the Year:</b>	
545	Employer's Contributions Payable	582
<b>72</b>		<b>1,321</b>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011 is a loss of £2,526,000.

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).



This has the effect of reducing the Authority's pension liability in Cornwall's Pension Fund by £1.439 million, and this has been recognised as a past service gain in accordance with the guidance set down in the Urgent Issues Task Force (UITF) Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact upon the General Fund.

### 33.3 Assets and Liabilities in Relation to Post-employment Benefits

The underlying assets and liabilities for retirement benefits attributable to the Council as at 31 March 2011 are as follows:

2009/10 £000's		2009/10 £000's
(14,877)	Estimated <b>liabilities</b> in the scheme	(12,175)
8,583	Estimated <b>assets</b> in the scheme	9,794
<b>(6,294)</b>	<b>Net assets/(liabilities)</b>	<b>(2,381)</b>

Reconciliation of present value of the scheme liabilities (defined benefit obligation)

2009/10 £000's		2010/11 £000's
9,030	Liabilities as at 1 April	14,877
258	Current Service Costs	547
627	Interest Costs	766
147	Contributions by Members	183
5,102	Actuarial Losses / (Gains)	(2,349)
0	Past Service Costs	(1,439)
(2)	Estimated Unfunded Benefits Paid	(2)
(285)	Estimated Benefits Paid	(408)
<b>14,877</b>	<b>Liabilities as at 31 March</b>	<b>12,175</b>

Reconciliation of fair value of the scheme (plan) assets

2009/10 £000's		2010/11 £000's
6,344	Assets as at 1 April	8,583
412	Expected Return on Assets	613
147	Contribution by Members	183
543	Contributions by Employer	580
2	Contribution in respect of Unfunded Benefits	2
1,422	Actuarial Gains / (Losses)	243
(2)	Unfunded Benefits Paid	(2)
(285)	Benefits Paid	(408)
<b>8,583</b>	<b>Assets as at 31 March</b>	<b>9,794</b>

2009/10 £000's	Movement in Reserves Statement	2009/10 £000's
(473)	Reversal of Net Charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	739
	<b>Actual amounts charged against the General Fund Balance for Pensions in the Year:</b>	
545	Employer's Contributions Payable	582
<b>72</b>		<b>1,321</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

Assets in the scheme are valued at fair value, principally market value for investments, and consist of the categories below:

<b>Proportion of assets held within the Local Government Pension Scheme by type:</b>		<b>%</b>
66	Equity Investments	72
16	Bonds	14
7	Property	7
11	Cash	7

  

<b>Long Term Expected Rate of Return on Assets in the Scheme:</b>		<b>% p.a.</b>
7.0	Equity Investments	7.5
5.6	Bonds	4.9
4.9	Property	5.5
4.0	Cash	4.6

The actual return on scheme assets in the year was £855,000 (2009/10 gain of £1.834 million).

### 33.4 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by Hymans Robertson, an independent firm of actuaries. They are based on the latest full valuation of the scheme as at 31 March 2011.

The principal assumptions used by the actuary have been:

<b>31 March 2010</b>		<b>31 March 2011</b>
<b>% p.a.</b>		<b>% p.a.</b>
3.8	Price Increases (inflation)	2.8
5.8	Salary Increases	5.1
3.8	Pensions Increases	2.8
5.5	Discount Rate for scheme liabilities	5.5

  

<b>Years</b>		<b>Years</b>
20.8	Current pensioners: Male	21.3
24.1	Current pensioners: Female	23.4
22.3	Future Pensioners: Male	23.2
25.7	Future Pensioners: Female	25.6

### 33.5 Scheme History

	2010/11 £000's	2009/10 £000's	2008/09 £000's	2007/08 £000's	2006/07 £000's
Present Value of Liabilities	(12,175)	(14,877)	(9,030)	(8,970)	(8,855)
Fair Value of Assets in the Local Government Pension Scheme	9,794	8,583	6,344	7,852	7,408
<b>Actuarial Gain/(Loss) in Pension Fund</b>	<b>(2,381)</b>	<b>(6,294)</b>	<b>(2,686)</b>	<b>(1,118)</b>	<b>(1,447)</b>

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £12.175 million has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy.

The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, i.e. before payments fall due, as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 is £599,000.

### 33.6 History of Experience Gains and Losses

The actuarial gains and losses identified as movements on the pensions reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities as at 31 March 2011:

	2010/11 £000's	2009/10 £000's	2008/09 £000's	2007/08 £000's	2006/07 £000's
Difference between expected and actual return on assets	2.48%	16.57%	-38.40%	-2.45%	1.90%
Experience gains and losses on liabilities	0.00%	0.01%	-2.98%	13.20%	-0.02%

### Note 34 Landfill Allowance Trading Scheme (LATS)

2009/10			2010/11		
Tonnes	Value		Tonnes	Value	
	£000's			£000's	
2,036	0	Landfill Allowances b/fwd	3,393	0	
1,357	0	Allowances received for the year	1,206	0	
0	0	Expired by target year	(3,393)	0	
<b>3,393</b>	<b>0</b>	<b>Landfill Allowances c/fwd</b>	<b>1,206</b>	<b>0</b>	

All LATS allocated in previous years have been cancelled and are now lost to the authority.

A review of the trade history of the LATS indicated that there is limited activity and that the market for trading LATS is not yet mature or widespread.

The Isles of Scilly 2010/11 allocation awarded was 1,206. Following a review of information available it was concluded that the LATS value was zero at 31 March 2011 as it was in 2009/10.

### **Note 35 IFRS Transition 2009/10 – Comprehensive Income and Expenditure Statement**

The accounts for 2010/11 have been calculated and are presented in accordance with International Finance Reporting Standards (IFRS). This has necessitated restating the Income and Expenditure Account as published in the 2009/10 Statement of Accounts into the new Comprehensive Income and Expenditure Account with a number of presentational and calculated changes to the figures. The journey from the 2009/10 Income & Expenditure Account to the comparative figures as seen in the CIES on page 21 is shown below.

Each column tracks an individual change and the key to those columns is given below:

#### **Key to Columns**

Column	This Column shows the Adjustment required in respect of:
A	The Figures as published in the 2009/10 Statement of Accounts, presented under UKGAAP guidance
B	Income and Expenditure was not being correctly analysed in the past for IFRS purposes, this set of adjustments restates the 09/10 Published I&E figures as a comparative start point prior to restatement for IFRS
C	Investment properties were included within Culture, Environment and Planning, these are now shown separately on the Comprehensive income and Expenditure Statement
D	Adjustment arising from restating the leases
E	Adjustments arising from restating the changes to Non-Current Assets
F	Adjustments arising from the change accounting treatment of Capital Grants
G	Adjustments arising from applying the accounting entries in respect of Employee Untaken Leave and Time-Off-In-Lieu
H	Adjustments arising from the change accounting treatment of Revenue Grants

	All £000's	2009/10 - Gross Expenditure							Restated	2009/10 - Gross Income							Restated	2009/10 Net
		A	B	C	D	E	F	G		A	B	C	D	F	H			
Central Services		3,872	(3,541)	0	(6)	(164)	(30)	16	147	(3,701)	3,541	0	0	0	(10)	(170)	(23)	
Cultural, Environmental & Planning Services		3,076	(914)	(10)	(6)	38	152	9	2,345	(1,739)	914	33	0	0	(67)	(859)	1,486	
Children's & Education Services		4,281	(36)	0	0	13	38	5	4,301	(3,807)	36	0	0	0	(150)	(3,921)	380	
Fire & Rescue Services		406	0	0	0	(2)	6	0	410	(22)	0	0	0	0	(2)	(24)	386	
Highways, Roads & Transport Services		213	(30)	0	0	0	1	0	184	(104)	30	0	0	0	(35)	(109)	75	
Housing Services		982	(140)	0	(11)	(552)	11	2	292	(867)	140	0	0	0	(33)	(760)	(468)	
Social Services		998	0	0	0	46	11	5	1,060	(290)	0	0	0	0	28	(262)	798	
Corporate & Democratic Core		1,726	(1)	0	0	0	98	0	1,823	(35)	1	0	0	0	(5)	(39)	1,784	
Court Services		3	0	0	0	0	0	0	3	0	0	0	0	0	0	0	3	
Non Distributed Costs		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Net Cost of Services		15,557	(4,662)	(10)	(23)	(621)	287	37	10,565	(10,565)	4,662	33	0	0	(274)	(6,144)	4,421	
Financing and Investment Income and Expenditure:																		
Interest payable and similar charges			35	0	12	0	0	0	47	0	0	0	0	0	0	0	47	
Pensions interest costs and expected return on pension assets		0	215	0	0	0	0	0	215	0	0	0	0	0	0	0	215	
Interest and investment income		0	0	0	0	0	0	0	0	0	(13)	0	(20)	0	0	(33)	(33)	
Investment Property		0	0	10	33	316	1	0	360	0	0	(33)	0	0	0	(33)	327	
(Surplus)/Deficit on trading services			2,108	0	0	(161)	56	17	2,020	0	(1,864)	0	0	0	0	(1,864)	156	
Taxation and Non-Specific Grant Income:		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Demand on the Collection Fund		0	0	0	0	0	0	0	0	(1,320)		0	0	0	0	(1,320)	(1,320)	
General Government Grants - Revenue		0	0	0	0	0	0	0	0	(623)		0	0	0	0	(623)	(623)	
General Government Grants - Capital		0	0	0	0	0	0	0	0	0	0	0	0	(1,313)	0	(1,313)	(1,313)	
Non-Domestic Rates		0	0	0	0	0	0	0	0	(1,802)		0	0	0	0	(1,802)	(1,802)	
(Surplus)/Deficit on the Provision of Services for the Year		15,557	(2,304)	0	22	(466)	344	54	13,207	(14,310)	2,785	0	(20)	(1,313)	(274)	(13,132)	75	
Surplus or Deficit on Revaluation of Non-Current Assets																		(2,052)
Movement on Collection Fund and Other Balances																		(41)
Actuarial Gains or Losses on Pension Assets and Liabilities																		3,680
Other Comprehensive Income and Expenditure																		1,587
TOTAL Comprehensive Income and Expenditure																		1,662

**Note 36 IFRS Transition - Balance Sheet 1 April 2009**

As with the Income and Expenditure Statement, the transition to International Reporting Standards has required a number of changes within Balance Sheet figures. In order to arrive at the comparative figures presented within the 2010/11 Balance Sheet on page 22, a number of adjustments have been made to individual balances and to the presentation of figures on the statement. Those changes have been analysed in the following table, with each reason for the change being detailed in a single column. The first table shows the restatement of the Balance Sheet figures from 31 March 2009 to 1 April 2009 (IFRS Compliant). The key to those columns is provided below:

Column	This Column shows the Adjustment required in respect of:
A	Leases
B	Net Current Assets
C	Grants
D	Capital Grants Applied (Government Grants Deferred)
E	Capital Grants Unapplied
F	Accumulated Absences
G	Cosmetic change: Collection fund was shown within the General Fund figure, extracted and moved to Unusable Reserves total
H	Cosmetic change: Schools fund was shown within the General Fund figure, extracted and moved to Other Usable Reserves total
I	Cosmetic change: Less details of individual reserves required on the face of the Balance Sheet – see Note 17 for more details on Usable Reserves and Note 18 for the analysis of Unusable Reserves. Also included are any rounding adjustments.

	As Published 31 March 2009 £000's	A £000's	B £000's	C £000's	D £000's	E £000's	F £000's	G £000's	H £000's	I £000's	Restated 1 April 2009 £000's
Council Dwellings HRA	11,009	0	7	0	0	0	0	0	0	0	11,016
Council Dwellings General Fund	1,877	0	0	0	0	0	0	0	0	0	1,877
Other Land and Buildings	7,205	0	(64)	0	0	0	0	0	0	0	7,141
Vehicles, Plant, Furniture and Equipment	286	0	(21)	0	0	0	0	0	0	0	265
Infrastructure Assets	4,615	0	24	0	0	0	0	0	0	0	4,639
Community Assets	0	0	30	0	0	0	0	0	0	0	30
Assets under Construction	154	0	0	0	0	0	0	0	0	0	154
<b>Property, Plant &amp; Equipment:</b>	<b>25,146</b>	<b>0</b>	<b>(24)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>25,122</b>
Investment Properties	396	0	(316)	0	0	0	0	0	0	0	80
Long Term Debtors	0	133	0	0	0	0	0	0	0	0	133
<b>Long Term Assets</b>	<b>25,542</b>	<b>133</b>	<b>(340)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>25,335</b>
Stocks and Work-In-Progress	104	0	0	0	0	0	0	0	0	0	104
Debtors	948	39	0	0	0	0	0	0	0	0	987
Cash and Bank	3,340	0	0	0	0	0	0	0	0	(1)	3,339
<b>Current Assets</b>	<b>4,392</b>	<b>39</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1)</b>	<b>4,430</b>
Short Term Borrowing	(146)	0	0	0	0	0	0	0	0	0	(146)
Creditors	(2,477)	(14)	0	1,699	0	0	0	0	0	0	(792)
Liabilities in disposal groups	0	0	0	0	0	0	(132)	0	0	0	(132)
<b>Current Liabilities</b>	<b>(2,623)</b>	<b>(14)</b>	<b>0</b>	<b>1,699</b>	<b>0</b>	<b>0</b>	<b>(132)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1,070)</b>

*Continued overleaf*

	As Published 31 March 2009	A	B	C	D	E	F	G	H	I	Restated 1 April 2009
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Long Term Creditors	0	(22)	0	0	0	0	0	0	0	0	(22)
Long Term Borrowing	(580)	0	0	0	0	0	0	0	0	0	(580)
Government Grants Deferred	(2,336)	0	0	0	2,336	0	0	0	0	0	0
Capital Grants (unapplied)	(1,065)	0	0	0	0	1,065	0	0	0	0	0
Liability Related to Defined Benefit Pension Scheme	(2,686)	0	0	0	0	0	0	0	0	0	(2,686)
Capital Grants Receipts in Advance	0	0	0	0	0	(949)	0	0	0	0	(949)
<b>Long Term Liabilities</b>	<b>(6,667)</b>	<b>(22)</b>	<b>0</b>	<b>0</b>	<b>2,336</b>	<b>116</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(4,237)</b>
<b>Net Assets</b>	<b>20,644</b>	<b>136</b>	<b>(340)</b>	<b>1,699</b>	<b>2,336</b>	<b>116</b>	<b>(132)</b>	<b>0</b>	<b>0</b>	<b>(1)</b>	<b>24,458</b>
<b>Usable Reserves</b>											
General Fund Balance	1,947	0	0	0	0	0	0	(144)	(249)	1	1,555
Housing Revenue Account	619	0	0	0	0	0	0	0	0	(371)	248
Usable Capital Receipts Reserve	274	0	0	0	0	0	0	0	0	(274)	0
Earmarked Reserves	2,880	0	0	0	0	0	0	0	249	(3,129)	0
Other Usable Reserves	0	0	0	1,699	0	115	0	0	0	3,774	5,588
Revaluation Reserve	265	0	(34)	0	0	0	0	0	0	(231)	0
Capital Adjustment Account	17,345	136	(306)	0	2,335	0	0	0	0	(19,510)	0
Pensions Reserve	(2,686)	0	0	0	0	0	0	0	0	2,686	0
<b>Unusable Reserves</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(132)</b>	<b>144</b>	<b>0</b>	<b>17,055</b>	<b>17,067</b>
<b>Total Reserves</b>	<b>20,644</b>	<b>136</b>	<b>(340)</b>	<b>1,699</b>	<b>2,335</b>	<b>115</b>	<b>(132)</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>24,458</b>



**Note 37 IFRS Transition - Balance Sheet 31 March 2010**

The table below shows the adjustments that have been made to restate the balances as published in the 2009/10 Accounts to take account of the revised opening balances as at 1 April 2009 (see Note 36), and the effects of IFRS on the 2009/10 transactions and balances. The key to each column is given below.

Column	This Column shows the Adjustment required in respect of:
A	Leases
B	Net Current Assets
C	Grants
D	Capital Grants Applied (Government Grants Deferred)
E	Capital Grants Unapplied
F	Accumulated Absences
G	Cosmetic change: Collection fund was shown within the General Fund figure, extracted and moved to Unusable Reserves total
H	Cosmetic change: Schools fund was shown within the General Fund figure, extracted and moved to Other Usable Reserves total
I	Cosmetic change: Fewer details of individual reserves required on the face of the Balance Sheet – see Note 17 for more details on Usable Reserves and Note 18 for the analysis of Unusable Reserves.

	As Published 31 March 2010	Adj for 08/09 restatement	09/10 Movements	A	B	C	D	E	F	G	H	I	Restated 31 March 2010
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Council Dwellings HRA	11,185		176	0	(4)	0	0	0	0	0	0	0	
Council Dwellings General Fund	2,178		302	0	0	0	0	0	0	0	0	0	
Other Land and Buildings	7,110		(96)	0	245	0	0	0	0	0	0	0	
Vehicles, Plant, Furniture and Equipment	289		4	0	5	0	0	0	0	0	0	0	
Infrastructure Assets	4,405		(210)	0	(56)	0	0	0	0	0	0	0	
Community Assets	0		0	0	0	0	0	0	0	0	0	0	
Assets under Construction	1,233		1,078	0	79	0	0	0	0	0	0	0	
<b>Property, Plant &amp; Equipment:</b>	<b>26,400</b>	<b>(1,279)</b>	<b>1,254</b>	<b>0</b>	<b>269</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>26,644</b>
Investment Properties	439	(359)	43	0	0	0	0	0	0	0	0	0	123
Long Term Debtors	0	133	0	(12)	0	0	0	0	0	0	0	0	121
<b>Long Term Assets</b>	<b>26,839</b>	<b>(1,505)</b>	<b>1,297</b>	<b>(12)</b>	<b>269</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>26,888</b>
Stocks and Work-In-Progress	105	(1)	1	0	0	0	0	0	0	0	0	0	105
Debtors	1,607	(620)	659	0	0	0	0	0	0	0	0	0	1,646
Cash and Bank	8,072	(4,733)	4,733	0	0	0	0	0	0	0	0	0	8,072
<b>Current Assets</b>	<b>9,784</b>	<b>(5,354)</b>	<b>5,393</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9,823</b>
Short Term Borrowing	(145)	(1)	1	0	0	0	0	0	0	0	0	0	(145)
Creditors	(3,864)	3,072	(1,387)	0	0	274	0	0	0	0	0	0	(1,905)
Provisions	(30)	30	(30)	0	0	0	0	0	0	0	0	0	(30)
Liabilities in disposal groups	0	(132)	0	0	0	0	0	0	(54)	0	0	0	(186)
<b>Current Liabilities</b>	<b>(4,039)</b>	<b>2,969</b>	<b>(1,416)</b>	<b>0</b>	<b>0</b>	<b>274</b>	<b>0</b>	<b>0</b>	<b>(54)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2,266)</b>

*Continued Overleaf.*

	As Published 31 March 2010	Adj for 08/09 restatement	09/10 Movements	A	B	C	D	E	F	G	H	I	Restated 31 March 2010
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Long Term Creditors	0	(22)	0	10	0	0	0	0	0	0	0	0	(12)
Long Term Provisions	0	0	0	0	0	0	0	0	0	0	0	0	0
Long Term Borrowing	(436)	(144)	144	0	0	0	0	0	0	0	0	0	(436)
Government Grants Deferred	(3,270)	3,270	(934)	0	70	0	864	0	0	0	0	0	0
Capital Grants (unapplied)	(5,127)	5,127	(4,062)	0	0	0	0	4,062	0	0	0	0	0
Liability Related to Defined Benefit Pension Scheme	(6,294)	3,608	(3,608)	0	0	0	0	0	0	0	0	0	(6,294)
Capital Grants Receipts in Advance	0	(949)	0	0	0	0	0	(3,958)	0	0	0	0	(4,907)
<b>Long Term Liabilities</b>	<b>(15,127)</b>	<b>10,890</b>	<b>(8,460)</b>	<b>10</b>	<b>70</b>	<b>0</b>	<b>864</b>	<b>104</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(11,649)</b>
<b>Net Assets</b>	<b>17,457</b>	<b>7,000</b>	<b>(3,186)</b>	<b>(2)</b>	<b>339</b>	<b>274</b>	<b>864</b>	<b>104</b>	<b>(54)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>22,796</b>
<b>Usable Reserves</b>													
General Fund Balance	2,018	(463)	70	0	0	0	0	0	0	12	(53)	0	1,584
Housing Revenue Account	713	(465)	94	0	0	0	0	0	0	0	0	(82)	260
Usable Capital Receipts Reserve	274	(274)	0	0	0	0	0	0	0	0	0	0	0
Earmarked Reserves	2,715	(2,715)	(165)	0	0	0	0	0	0	0	53	112	0
Other Usable Reserves	0	5,588	0	0	0	274	0	104	0	0	0	(29)	5,937
Revaluation Reserve	1,718	(1,718)	1,453	0	176	0	0	0	0	0	0	(1,629)	0
Capital Adjustment Account	16,313	(16,313)	(1,032)	(2)	163	0	864	0	0	0	0	7	0
Pensions Reserve	(6,294)	6,294	(3,608)	0	0	0	0	0	0	0	0	3,608	0
<b>Unusable Reserves</b>	<b>0</b>	<b>17,067</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(54)</b>	<b>(12)</b>	<b>0</b>	<b>(1,986)</b>	<b>15,015</b>
<b>Total Reserves</b>	<b>17,457</b>	<b>7,001</b>	<b>(3,188)</b>	<b>(2)</b>	<b>339</b>	<b>274</b>	<b>864</b>	<b>104</b>	<b>(54)</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>22,796</b>

## Balance Sheet as at 31 March 2010

Following on from the transition of the Balance Sheet from UKGAAP to IFRS, the Balance Sheet as it would have appeared in the 2009/10 accounts, restated, is presented below:

1 April 2009 £000's		31 March 2010 £000's
25,122	Property, Plant & Equipment	26,644
80	Investment Properties	123
133	Long Term Debtors	121
<b>25,335</b>	<b>Long Term Assets</b>	<b>26,888</b>
104	Stocks and Work-In-Progress	105
987	Debtors	1,646
3,339	Cash and Bank	8,072
<b>4,430</b>	<b>Current Assets</b>	<b>9,823</b>
(146)	Short Term Borrowing	(145)
(792)	Creditors	(1,905)
0	Provisions	(30)
(132)	Accumulated Absences Provision	(186)
<b>(1,070)</b>	<b>Current Liabilities</b>	<b>(2,266)</b>
(22)	Long Term Creditors	(12)
(580)	Long Term Borrowing	(436)
(2,686)	Liability Related to Defined Benefit Pension Scheme	(6,294)
(949)	Capital Grants Receipts in Advance	(4,907)
<b>(4,237)</b>	<b>Long Term Liabilities</b>	<b>(11,649)</b>
<b>24,458</b>	<b>Net Assets</b>	<b>22,796</b>
<b>Usable Reserves</b>		
1,555	General Fund Balance	1,584
248	Housing Revenue Account Balance	260
5,588	Other Usable Reserves	5,528
17,067	<b>Unusable Reserves</b>	15,015
<b>24,458</b>	<b>Total Reserves</b>	<b>22,387</b>

## Housing Revenue Account Income and Expenditure Statement

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

2009/10 £000's	Expenditure	2010/11 £000's	Note
121	Repairs and Maintenance	99	43
106	Supervision and Management	112	
(282)	Depreciation and Impairment of Non-Current Assets	3,368	
1	Debt Management Costs	0	46
39	Negative Housing Revenue Account subsidy	37	
<b>(15)</b>	<b>Total Expenditure</b>	<b>3,616</b>	
	<b>Income</b>		
(330)	Dwelling Rents (gross)	(341)	
(9)	Non-dwelling rents (gross)	(9)	
(15)	Charges for services and facilities	(13)	
<b>(354)</b>	<b>Total Income</b>	<b>(363)</b>	
<b>(369)</b>	<b>Net Cost of HRA Services Included in the Comprehensive Income and Expenditure Statement</b>	<b>3,253</b>	
19	Interest payable and similar charges	20	
(12)	Interest and investment income	(18)	
<b>(362)</b>	<b>(Surplus)/Deficit for the year on HRA services</b>	<b>3,255</b>	

## Movement on the HRA Statement

2009/10 £000's		2010/11 £000's	
248	Balance on the HRA at the end of the previous year	260	
362	Surplus or (deficit) for the year on the HRA Income and Expenditure Statement	(3,255)	
(404)	Adjustments between accounting basis and funding basis under statute	3,275	38
<b>(42)</b>	<b>Net increase or (decrease) before transfers to or from reserves</b>	<b>19</b>	
54	Transfers (to) or from reserves	17	
<b>12</b>	<b>Increase or (decrease) in year on the HRA</b>	<b>36</b>	
<b>260</b>	<b>Balance on the HRA at the end of the current year</b>	<b>352</b>	

## Notes to the Housing Revenue Account

### Note 38 Statement of Movement on the HRA Balance

2009/10 £000's		2010/11 £000's
	<b>Adjustments between accounting basis and funding basis under regulations</b>	
(1)	Accumulating compensated absences and holiday pay	(1)
404	Revaluation Decrease and Impairment Losses on Fixed Assets	3,275
4	Employer's contributions payable to the pension fund and retirement benefits paid directly to pensioners	(4)
(3)	Net charges made for retirement benefits in accordance with IAS19	5
<b>404</b>		<b>3,275</b>
	<b>Transfers to or (from) earmarked reserves</b>	
(72)	Transfer to /(from) Major Repairs Reserve	18
18	Transfer to /(from) Housing Repairs Account	(1)
<b>(54)</b>		<b>17</b>

### Note 39 Analysis of Council Housing Stock

2009/10 Number		2010/11 Number
	<b>Flats &amp; Bedsits</b>	
37	One Bedroom	36
14	Two Bedrooms	14
1	Three Bedrooms	1
<b>52</b>	<b>Total Flats and Bedsits</b>	<b>51</b>
	<b>Houses and Bungalows</b>	
3	One Bedroom	4
10	Two Bedrooms	10
39	Three Bedrooms	39
4	Four or more bedrooms	4
<b>56</b>	<b>Total Houses and Bungalows</b>	<b>57</b>
<b>108</b>	<b>Total Number of Council Dwellings</b>	<b>108</b>

**Note 40 Value of HRA Assets**

<b>Operational Assets</b>	<b>Houses £000's</b>	<b>Garages £000's</b>	<b>Land £000's</b>	<b>Total £000's</b>
At 1 April 2010	11,188	231	0	11,419
Additions	80	0	0	80
Revaluations	(3,275)	0	0	(3,275)
Reclassifications	(3,166)	0	3,166	0
Accumulated Depreciation & Impairment	0	(12)	0	(12)
Charge for Year	(87)	(6)	0	(93)
<b>Value as at 31 March 2011</b>	<b>4,740</b>	<b>213</b>	<b>3,166</b>	<b>8,119</b>

On revaluation of the houses in the year the existing use value adjustment factor for social housing changed from 44% to 31% of market value. This resulted in the valuation decrease of £3.275 million seen in the above analysis.

The reclassification shown in the above analysis is the result of componentising the assets on introduction of IFRS.

**Note 41 Vacant Possession Value of Council Houses**

The introduction of Resource Accounting in the Housing Revenue Account requires all HRA assets to be revalued as at 1st April each year. The basis of the valuation is Existing Use Value for Social Housing (EUV-SH) as defined by the Royal Institute of Chartered Surveyors. The method of valuation prescribed by the RICS to arrive at EUV-SH is based on the vacant possession value of the properties, adjusted to reflect the occupation by a secure tenant.

The Adjustment Factor for the South West for 2010/11 stands at 31%, (2009/10 44%) of the Vacant Possession Value. The value of the adjustment, in effect, reflects the cost of providing Council Housing at less than Market Value.

At 1 April 2010 the vacant possession value of dwellings within the Council's HRA was £36.090 million (1 April 2009: £25.037 million).

**Note 42 Movement on the Major Repairs Reserve (MRR)**

2009/10 £000's		2010/11 £000's
	<b>Depreciation</b>	
(140)	Dwellings	(87)
(5)	Garages	(6)
<b>(145)</b>	<b>Total Depreciation</b>	<b>(93)</b>
<b>9</b>	<b>Major Repairs Expenditure</b>	<b>58</b>
	<b>Transfer to General Fund</b>	
5	Depreciation of other buildings	6
67	Depreciation in excess of MRA	12
<b>81</b>		<b>76</b>
<b>(64)</b>	<b>(Surplus)/Deficit</b>	<b>(17)</b>
(286)	Balance as at 1 April	(350)
<b>(350)</b>	<b>Balance as at 31 March</b>	<b>(367)</b>

**Note 43 Movement on Housing Repairs Account (MRA)****Housing Repairs Account**

2009/10 £000's		2010/11 £000's
(85)	Balance at 1 April	(103)
(139)	Contribution from Housing Revenue Account	(100)
121	Expenditure on Housing Repairs	99
<b>(103)</b>	<b>Balance at 31 March</b>	<b>(104)</b>

**Note 44 Analysis of Capital Expenditure**

2009/10 £000's		2010/11 £000's
31	Capital Outlay - houses	80
<b>31</b>		<b>80</b>
	<b>Financed by:</b>	
22	Supported Capital Expenditure	22
9	Major Repairs Reserve	58
<b>31</b>		<b>80</b>



**Note 45 Rent Arrears**

2009/10 £000's		2010/11 £000's
17	Gross Rent Arrears at 31 March	13
(5)	Prepaid Rent	(4)
<b>12</b>	<b>Net Rent Arrears</b>	<b>9</b>

The rent arrears are stated net of any impairment for doubtful rental receipts totalling £Nil (2009/10 - £Nil).

**Note 46 Breakdown of HRA Subsidy**

2009/10 £000's		2010/11 £000's
103	Management Allowance	103
90	Maintenance Allowance	93
73	Major Repairs Allowance	75
	<b>Charges for Capital</b>	
15	Interest Charge	9
38	Debt Management	39
<b>319</b>	<b>Net Rent Arrears</b>	<b>319</b>
(358)	Notional Rent Income	(356)
<b>(39)</b>	<b>Housing Subsidy (negative)</b>	<b>(37)</b>

## Collection Fund

The Collection Fund reflects the statutory obligation for billing authorities such as the Council of the Isles of Scilly to maintain a separate Collection Fund. The statement shows the transactions of the billing Authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2009/10 £000's		2010/11 £000's	Note
	<b>Income</b>		
(1,432)	Council Tax	(1,488)	48
(79)	Transfer from General Fund - Council Tax Benefits	(77)	
(1,336)	Income collectable from business ratepayers	(1,366)	
<b>(2,847)</b>	<b>Total Income</b>	<b>(2,931)</b>	
	<b>Expenditure</b>		
	Precepts		
1,203	General Fund	1,245	
182	Police	189	50
	Business rates		
1,311	Payment to national pool	1,297	
25	Costs of collection	25	
	Bad/doubtful debts	44	
	Distribution of previous year's surplus		
117	General Fund	147	
23	Police	22	
<b>2,861</b>	<b>Total Expenditure</b>	<b>2,969</b>	
<b>14</b>	<b>(Surplus)/Deficit on Collection Fund</b>	<b>38</b>	
<b>144</b>	<b>CIOS - Collection Fund Balance 1 April</b>	<b>132</b>	
<b>132</b>	<b>CIOS - Collection Fund Balance 31 March</b>	<b>99</b>	

2009/10 £000's		2009/10 £000's
(12)	Billing Authority - Council of the Isles of Scilly	(33)
(2)	Precepting Authority - Devon & Cornwall Police Authority	(5)
<b>(14)</b>	<b>(Surplus)/Deficit for the year on the Collection Fund</b>	<b>(38)</b>

## Notes to the Collection Fund

### Note 47 Business Rates

2009/10

£000's

3,195 Total Non-Domestic Rateable Value as at 31 March

#### Multiplier Rates

48.5p Non - Domestic

48.1p Small Business

2010/11

£000's

4,628

41.4p

40.7p

### Note 48 Calculation of Net Council Tax

2009/10

£000's

(1,658) Council Tax - Gross Due

Less

126 Discounts

17 Exemptions

79 Benefits

4 Previous Year's Adjustment

**(1,432) Net Council Tax**

2010/11

£000's

(1,752)

134

45

77

8

**(1,488)**

### Note 49 Council Tax Base Relationship

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands (based on 1 April 2003 values for this specific purpose). Charges are calculated by taking the amount of income required for the Council and the Police Authority for the forthcoming year and dividing this amount by the Council Tax Base. The Council Tax Base is the number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent, totalled across all bands and adjusted for discounts. See the table below.

All bands are linked proportionately to the Basic Band D. The amount for a Band D property in 2010/11 was £1,186.74 (£1,135.00 in 2009/10). This is multiplied by the proportion specified for the particular band to give the individual amount due.

Valuation Band	Range of Values	Link to band D	Dwellings on valuation List	Adjusted for Discounted Dwellings	Band D Equivalents
A	Up to £40,000	6/9	12	11	7
B	£40,001 to £52,000	7/9	30	25	19
C	£52,001 to £68,000	8/9	84	68	60
D	£68,001 to £88,000	9/9	249	204	205
E	£88,001 to £120,000	11/9	334	287	350
F	£120,001 to £160,000	13/9	305	258	373
G	£160,001 to £320,000	15/9	148	122	203
H	Over £320,000	18/9	8	8	16
			<b>1,170</b>	<b>983</b>	<b>1,233</b>

**Note 50     Precepting Bodies**

The Collection Fund is required to meet, in full during the financial year, precepts and demands made on it by precepting Authorities and the billing Authority.

This Council made precept payments to Devon and Cornwall Police Authority for 2010/11 of £189,000 (2009/10 - £182,000).

## Isles of Scilly Fire Fighters' Pension Fund

The funding arrangements for the Fire Fighters' Pension Scheme in England changed on 1 April 2006 when the Firefighters' Pension Scheme (Amendment) (England) order 2006 was introduced.

Prior to this date the scheme did not have a percentage of pensionable pay type of employer's contribution, rather each Fire and Rescue Authority (FRA) was responsible for paying the pensions of its former employees on a pay-as-you-go basis. Under the new funding arrangements the schemes remain unfunded but will no longer be on a pay-as-you-go basis as far as an individual FRA is concerned. Authorities no longer meet the pension outgoings directly and instead pay an employer's pension contribution based on a percentage of pay into the Pension Fund. Each individual FRA in England is required by legislation to operate a Pension Fund and the amounts that must be paid into and out of the Pension Fund are specified by regulation.

The Council, acting as a Fire and Rescue Authority, administers and pays pensions. Employee contributions and a new employers contribution are paid into the pension fund from which pension payments are made. The fund is topped up by Government grant if the contributions are insufficient to meet the cost of pension payments, while any surplus in the fund is recouped by Government.

No payments to members of the pension scheme are yet due.

Employees' and employers' contribution levels are based on percentages of pensionable pay set nationally by the Department of Communities and Local Government (DCLG) and subject to triennial revaluation by the Government Actuary's Department.

The fire fighters' pension fund has no investment assets. The net assets statement does not include liabilities to pay pensions and other benefits after the Balance Sheet date.

## Accounting Policies

1. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and with guidance notes issued by CIPFA on the application of accounting standards to Local Authorities. They do not take account of liabilities to pay pensions and other benefits in the future. Information on the Authority's long term pensions' obligations can be found in the main statements on page 82.

2. Income and expenditure have been accounted for on an accruals basis for contributions and benefits payable.

## Isles of Scilly Fire Fighters' Pension Fund Accounts

2009/10 £000's		2010/11 £000's
	<b>Contributions Receivable</b>	
	Fire Authority:	
(5)	- contributions in relation to pensionable pay	(5)
(8)	Firefighters' Contributions	(7)
<b>(13)</b>		<b>(12)</b>
13	Top-up grant payable to / (from) the Government	12
<b>0</b>		<b>0</b>

### Net Assets Statement as at 31 March

2009/10 £000's		2010/11 £000's
	<b>Net current liabilities</b>	
13	Top-up receivable from the Government	12
(13)	Amounts payable to Government	(12)
<b>0</b>	<b>Total Net Liabilities</b>	<b>0</b>

2009/10 £000's		2010/11 £000's
	<b>Within Cost of Services:</b>	
0	Current Service Cost	20
0	Past Service Gain (Non Distributed Costs)	(13)
	<b>Financing and Investment Income and Expenditure:</b>	
0	Expected Return on Assets in the scheme	0
0	Interest Costs	0
<b>0</b>	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>7</b>
	<b>Other Post Employment Benefit Charged to the CIES:</b>	
0	Actuarial (Gains) or Losses	(6)
<b>0</b>	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the CIES</b>	<b>(6)</b>

2009/10 £000's		2009/10 £000's
	<b>Movement in Reserves Statement</b>	
0	Reversal of Net Charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the code	(7)
	<b>Actual amounts charged against the General Fund Balance for Pensions in the Year:</b>	
0	Employer's Contributions Payable	(5)
<b>0</b>		<b>(12)</b>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement is £6,000.

### 1.30 Assets and Liabilities in Relation to Post-employment Benefits

The underlying assets and liabilities for retirement benefits attributable to the Council as at 31 March 2011 are as follows:

2009/10 £000's	2009/10 £000's
(87) Estimated <b>liabilities</b> in the scheme	(93)
0 Estimated <b>assets</b> in the scheme	0
<b>(87) Net assets/(liabilities)</b>	<b>(93)</b>

Reconciliation of fair value of the scheme (plan) assets

2009/10 £000's	2009/10 £000's
(87) Estimated <b>liabilities</b> in the scheme	(93)
0 Estimated <b>assets</b> in the scheme	0
<b>(87) Net assets/(liabilities)</b>	<b>(93)</b>

2009/10 £000's	2010/11 £000's
0 Liabilities as at 1 April	87
0 Current Service Costs	20
87 Adjustment for new scheme accounting	0
0 Contributions by Members	5
0 Actuarial Losses / (Gains)	(6)
0 Past Service Costs / (Gains)	(13)
<b>87 Liabilities as at 31 March</b>	<b>93</b>

2009/10 £000's	2010/11 £000's
0 Assets as at 1 April	0
0 Contribution by Members	5
0 Contributions by Employer	(5)
<b>0 Assets as at 31 March</b>	<b>0</b>

The scheme does not hold any assets.

### 1.31 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The liabilities have been assessed by Hymans Robertson, an independent firm of actuaries. They are based on the latest full valuation of the scheme as at 31 March 2011.

The principal assumptions used by the actuary have been:

#### Financial Assumptions

31 March 2010		31 March 2011
% p.a.		% p.a.
3.8	Price Increases (inflation)	3.6
3.8	Salary Increases	4.6
5.3	Pensions Increases	2.8
5.5	Discount Rate for scheme liabilities	5.5

#### Mortality Assumptions

Years		Years
27.6	Current pensioners: Male	27.6
31.0	Current pensioners: Female	31.0
29.2	Future Pensioners: Male	29.2
32.7	Future Pensioners: Female	32.7

#### Commutation

It is assumed that 90% of future retirements elect to exchange pension for additional tax free cash up to Her Majesty's Revenue and Customs (HMRC) limits.

### 1.32 Scheme History

#### Scheme History

	2010/11 £000's	2009/10 £000's
Present Value of Liabilities	(93)	(87)
Fair Value of Assets in the Local Government Pension Scheme	0	0
<b>Actuarial Gain/(Loss) in Pension Fund</b>	<b>(93)</b>	<b>(87)</b>

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £93,000 has an impact on the net worth of the authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy.

The deficit on the scheme will be made good by increased contributions over the remaining working life of employees, i.e. before payments fall due, as assessed by the scheme actuary.

The total contributions expected to be made to the Scheme by the Council in the year to 31 March 2012 is £21,000.



## **Auditor's Report and Opinion**

To be inserted when available.

## Annual Governance Statement for 2010/11

### 1. Scope of Responsibility

The Council of the Isles of Scilly is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council of the Isles of Scilly also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council of the Isles of Scilly (Members and Officers) is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council of the Isles of Scilly has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website at [www.scilly.gov.uk/governance](http://www.scilly.gov.uk/governance) or can be obtained by e-mail from [governance@scilly.gov.uk](mailto:governance@scilly.gov.uk) or in hard copy from the Town Hall. This statement explains how the Council of the Isles of Scilly has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit [Amendment] (England) Regulations 2006 in relation to the publication of a statement on internal control.

### 2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the policies, aims and objectives of the Council of the Isles of Scilly, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council of the Isles of Scilly for the year ended 31 March 2011 and up to the date of approval of the annual report and statement of accounts.

### **3. The Governance Framework**

The Council of the Isles of Scilly is a small unitary authority delivering a broad range of services to a unique island community, located 45km south west from mainland Britain. The population of the Islands was recorded as 2153 at the last census in 2001 and is spread over five inhabited Islands. The vast majority of the population, 1,600, lives on St Mary's. The population has remained stable for the last 100 years but over the past ten years the elderly population has increased by around seven per cent while under 16's have decreased by six per cent. Diversity issues are focused on access to services for the small off island communities and the influx of seasonal migrant workers which number in excess of 100 predominantly from Eastern Europe.

The Duchy of Cornwall owns the vast majority of land on the islands, apart from a small area of the main town on St Mary's. There are just over a 100 Council houses and a key issue is providing sufficient affordable and key worker housing.

Education levels are considerably higher than the national average. The Five Islands School provides primary and secondary education on the islands with post-16 further and higher education undertaken on the mainland.

The Authority delivers the widest range of services of any council in the country, all of the usual statutory services as well as some additional services such as tourism (the economy is 85% dependent on this) water, sewerage and operates St Mary's Airport, the 10<sup>th</sup> busiest regional passenger airport in the UK. This wide range of services, is delivered with a limited budget; the 2010/11 requirement is £3,654,000 and a small core of staff. In addition the geographic context means that there is an additional cost and complexity to all service delivery. This combined with very small cohorts of clients means that it is not necessarily meaningful to benchmark against national statistics and all statistics need careful interpretation.

The special nature of Scilly is reflected in its unique constitutional position. It has its own 'Isles of Scilly Clause', the aim of which is to try to ensure that all laws applied to the Islands are appropriate to the size and scope of the Isles of Scilly. The Clause is added to all new legislation meant to apply to the Council and omitted from all legislation not meant to apply.

The Authority has always been non-political and is currently made up of 21 independent Members, 13 elected by St Mary's residents and two each, elected by residents of Bryher, St Martins, St Agnes and Tresco. The Council is an Option 4 Authority under the Local Government Act 2000 and retains a committee system consisting of ten standing committees and the statutory Council meetings. The Council's business is transacted within a general

framework of authority comprising statutory provisions, orders and directions, bylaws and a variety of specific resolutions by the Council and its various Committees.

Responsibility for the appointment of the Chief Executive is reserved to Council. The Chief Executive has overall corporate management and operational responsibility (including overall management responsibility for and authority over all Officers), and is responsible for advice to Members on strategy, policy, management and organisation and has primary responsibility for ensuring that decisions taken by Council are taken in accordance with proper processes and after full considerations of all relevant facts, circumstances and legal advice where necessary.

Cornwall Council is commissioned as Internal Auditor for the Council of the Isles of Scilly. The Head of Internal Audit provides an annual report giving opinion on overall adequacy and effectiveness of the Authority's risk management systems and internal controls and an interim report during the year. These reports draw attention to any issues the Head of Internal Audit assesses as relevant to the preparation of the Annual Governance Statement, summarising the Authority's performance and that of the internal audit function.

The reports of the Head of Internal Audit, as well as assurances and reports from external auditors, third parties, Members and Officers are used in the preparation of the Annual Governance Statement prior to its review, challenge and approval by Council. This document is used throughout the year as a checklist for the governance arrangements.

The key elements of the Council's systems and processes that comprise the authority's governance arrangements are:

No	Element of Governance
<b>Statutory Obligations and Organisational Objectives</b>	
3.1	The Council of the Isles of Scilly has adopted a Code of Conduct that is in line with suggested best practice principles and expects all its Members, Officers and contractors to adhere to the highest standards of public service, with particular reference to the Code of Conduct and policies of the Council and applicable statutory requirements. Members follow procedures to ensure that the authority is efficient, transparent and accountable to the local people, including Council minutes showing delegation of Members and Officers and Committee terms of reference.
3.2	Records of statutory obligations are accessible to our community and stakeholders via a central legal library, held in the Town Hall, and on the Council's website and intranet.
3.3	Effective procedures are in place to establish and monitor statutory obligations and the corporate priorities. Assurance is given to the Chief Executive that legislative changes are identified and communicated to Members to ensure implementation and/or action to be taken. Following induction training, awareness training is periodically arranged to apprise Members of new or changes to statutory obligations and legislation.
3.4	Action is taken where areas of non-compliance are found in either mechanism or legislation. Audit reports are reviewed and corrective action reports are taken to the appropriate committee. The Democratic Processes Review Group reviews risks registers and action plans in respect of legal risks. Internal Audit reports are reported to the Management Team and Members at the relevant Committee meetings.
3.5	The Council involves the community and stakeholders by holding consultations to ensure the Council's priorities and objectives within the business plans reflect the wants and needs of the stakeholders.
3.6	The Council's priorities are decided upon following consultation and taking into account the feedback from the consultations with our community and stakeholders. This is reflected in partnership arrangements that are aligned to the Council's corporate priorities.

No	Element of Governance
3.7	The Council's priorities are published in the Sustainable Community Strategy 2020 by taking into account the annual budget and medium term financial plans.
3.8	The Council's service plans include each department's contribution to the strategic objectives outlined in the Sustainable Community Strategy and are supported by action plans with targets taking into account the available funding. These plans provide direction for the Council and are accessible to Officers, Councillors, partners and the public. Progress is monitored by regular reporting to the appropriate parent committee.
3.9	The Communication Strategy establishes and maintains effective channels of communication between directors, managers, employees, partners and stakeholders to enable the Council's goals and objectives to be clearly understood, acted upon and achieved. All key documents clearly set out the corporate objectives and are accessible to Officers, Councillors, partners and the public via the Council's website and intranet.
3.10	A Local Code of Governance has been developed from the six core principles of good governance, and supporting principles, in line with the CIPFA/SOLACE guidance and adopted by the Policy and Resources Committee. The communication strategy relating to the code is published within the code itself as the final section. The Authority's Local Code of Governance is accessible to all stakeholders on the Council's website and intranet and is included within the Annual Governance Statement.
3.11	The Local Code of Governance is reviewed annually and is monitored not less than twice per year. The annual review of the Code of Governance is the responsibility of the Corporate Governance Lead, is reviewed and reported to the Policy and Resources Committee. Decisions are recommended to relevant committees.
3.12	The Policy and Resources Committee has responsibility for receiving and ensuring the Council's compliance with Corporate Governance issues as set out in the Terms of Reference in the Members Handbook. The Policy and Resources Committee receives reports not less than twice per year on the progress of the Annual Governance Statement, including the Local Code of Governance.
3.13	Training for Officers, key staff and Members is planned to continue. Awareness and induction training for new staff and Members is planned following the initial training.

No	Element of Governance
3.14	The Local Code of Governance is published on the Council's website and intranet and communicated to all stakeholders to ensure all staff are aware of the Code of Governance and how their responsibilities fit into the authority plans. Partner organisations are made aware of the importance of the Council's Code of Governance and processes to ensure that their employees and any third party involved are also aware of the Council's Code. External stakeholders are informed to assure them that the authority is managing its internal controls and that the authority will deliver services as expected.
3.15	The Council of the Isles of Scilly has a developing performance management framework that supports the effective monitoring and management of performance. Measures are being introduced to ensure that performance issues can be communicated and addressed across the Authority. Objectives, targets and action plans are publicised in accessible formats through the Local Area Agreement, service plans and are included on the Council's website and intranet.
3.16	Officers and service managers identify key performance indicators that are included in the Corporate and Service Plans and are approved annually.
3.17	<p>The performance indicators assist in challenging the services contribution to Strategic Objectives. Reviews and monitoring shows the authority how it is performing against its planned outcomes through presentation of regular reports to Members.</p> <p>The Local Strategic Partnership are developing a management framework to scrutinise delivery of the Sustainable Community Strategy.</p> <p>A set of performance indicators are being produced to be monitored quarterly by the Senior Management Team.</p> <p>The Council has implemented a performance management ICT system and a Performance Management Group has been formed to monitor and review the performance management across the Authority.</p>
3.18	SMART action plans to improve below par performance are reported to Members of the appropriate committee. Subsequent corporate and service plans are revised in the light of these action plans and the subsequent performance results.
3.19	Continuous improvements are being planned by the Performance Management Group to ensure performance targets are adjusted in the light of benchmarking with other authorities and review of actual performance during the coming year.

<b>The Six Core Principles of Governance</b>	
<b>The Requirement</b>	<b>How the Council will demonstrate compliance</b>
3.20 Develop and promote the authority's purpose and vision	<p>The authority's purpose and vision is clearly communicated to all Members, Officers and staff as background on computers and the intranet, and to the community on the Council website on Best Value Performance Review documentation and within the policy documents.</p> <p>The Sustainable Community Strategy has taken the vision forward and identified key areas to be addressed over the coming years.</p> <p>The authority's corporate plans inform how the Council is to achieve the priorities to support the Sustainable Community Strategy by working in partnership with the community and cascades further to the service and departmental plans.</p>
3.21 Review the authority's vision for the local area and its impact on the authority's governance arrangements on a regular basis	<p>A review and restructure of the Local Strategic Partnership took place in 2009/10.</p> <p>During 2009/10 the development of Strategic Investment Framework has taken place.</p> <p>Consultations are to take place in 2011/12 for a new Community Plan.</p> <p>A Grant Appraisal Committee has been established to monitor external funding applications.</p>



<b>The Six Core Principles of Governance</b>	
<b>The Requirement</b>	<b>How the Council will demonstrate compliance</b>
3.22 Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all parties	<p>The Council has improved its service planning by increased partnership working. The Sustainable Community Strategy has been developed to ensure a common vision with clear targets.</p> <p>A standard Statement is being developed to be used in partnership agreements for signature by designated signatories on behalf of the partners.</p>
3.23 Publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance	<p>Annual Financial statements are produced in June and agreed by Members at Full Council and published on the website.</p> <p>A formal annual report is also produced in June and agreed by Members at Full Council, to inform the community of the performance of the authority over the previous year and set out the plans for the future.</p>
3.24 Decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available	<p>The Council has a developing performance management framework that supports the effective monitoring and management of performance.</p> <p>Objectives, targets and action plans are published in accessible formats through the Local Area Agreement, service plans and are included on the Council's website and intranet.</p> <p>Quality of service is reflected in the service plans and these are monitored by the Democratic Processes Review Group.</p> <p>The Council has implemented a performance management ICT system.</p> <p>Measures are being introduced to ensure that performance issues can be</p>

The Six Core Principles of Governance	
The Requirement	How the Council will demonstrate compliance
	<p>communicated and addressed across the Authority.</p> <p>Improvements to the performance management framework continue to take place.</p> <p>An improved framework for Service Plans was implemented during 2009/10.</p> <p>SMART action plans to improve performance are reported to Members of the appropriate committee.</p>
3.25 Put in place effective arrangements to identify and deal with failure in service delivery	<p>The Council has a set of national and local performance indicators.</p> <p>National and Local Performance indicators are monitored by the Data Quality Team and reported to Policy and Resources Committee and published annually on internet, intranet and Audit Commission website.</p> <p>Full Council receives reports relating to compliments, complaints and service improvements.</p>
3.26 Decide how value for money is to be considered and ensure that the authority or partnership has the information needed to review value for money and performance effectively.	<p>A Medium Term Financial Strategy has been approved and implemented to support the aims of the Corporate Plan.</p> <p>Efficiency gains are reflected in the MTFS and reported to Full Council.</p> <p>Service Plans reflect efficiency outcomes.</p> <p>The Corporate Procurement Strategy gives policy and objectives and is published on the website and intranet.</p>

<b>The Six Core Principles of Governance</b>	
<b>The Requirement</b>	<b>How the Council will demonstrate compliance</b>
	The Contract Management Framework assists in maintaining efficiencies within contracts and service level agreements.
3.27 Consider the environmental impact of policies, plans and decisions	<p>The islands were designated as an Area of Outstanding Natural Beauty in 1975.</p> <p>The Area of Outstanding Natural Beauty Management Plan contains policy and objectives, and identifies the actions or projects that will take objectives forward, highlighting the organisation responsible for carrying out projects and the timetable within which work is to be completed. This plan is reviewed on a 5 year basis.</p> <p>The AONB Management Plan also provides a supportive document for related project funding applications.</p> <p>The development of the Integrated Area Plan followed on from a major social, economic and environmental review of the Isles of Scilly and concentrates on Sustainable Environment, Sustainable Businesses and Sustainable Communities.</p> <p>The Isles of Scilly Partnership appraises and recommends projects for support under the Isles of Scilly Integrated Area Plan.</p>
3.28 Set out a clear statement of the respective roles and responsibilities of the executive's and of the executive's Members individually and the authority's approach towards putting this into practice	The special nature of Scilly is reflected in its unique constitutional position. It has its own 'Isles of Scilly Clause', the aim of which is to try to ensure that all laws applied to the Islands are appropriate to the size and scope of the Isles of Scilly. The Clause is added to all new legislation meant to apply to the Council and omitted from all legislation not meant to apply.

The Six Core Principles of Governance	
The Requirement	How the Council will demonstrate compliance
	<p>The Authority has always been non-political and is currently made up of 21 independent Members, 13 elected by St Mary's residents and two each, elected by residents of Bryher, St Martins, St Agnes and Tresco.</p> <p>The Council is an Option 4 Authority under the Local Government Act 2000 and retains a committee system consisting of ten standing committees and the statutory Council meetings.</p>
3.29 Set out a clear statement of the respective roles and responsibilities of the authority's Members and Senior Officers	<p>Terms of reference of powers delegated to Standing Committees sets out the areas for which individual Committees have responsibility and is contained in the Members and Officers Handbook.</p> <p>The Council's business is transacted within a general framework of authority comprising statutory provisions, orders and directions, bylaws and a variety of specific resolutions by the Council and its various Committees.</p> <p>A set of principal instruments for the internal regulation of the Council's affairs is set out in Standing Orders and reviewed periodically.</p> <p>Roles &amp; responsibilities for Members are being defined and a statement and a set of job descriptions are being developed for Members for implementation in 2011.</p> <p>Job descriptions for Senior Officers are reviewed and updated regularly by Human Resources.</p> <p>The National Code of Local Government Conduct is contained within the Members and Officers Handbook.</p>

<b>The Six Core Principles of Governance</b>	
<b>The Requirement</b>	<b>How the Council will demonstrate compliance</b>
3.30 Determine a scheme of delegation and reserve powers within the constitution, including a formal schedule of those matters specifically reserved for collective decisions of the authority taking account of relevant legislation and ensure that it is monitored and updated when required	<p>Terms of reference of powers delegated to Standing Committees sets out the areas for which individual Committees have responsibility and is contained in the Members and Officers Handbook.</p> <p>Most functions are delegated to Committees with the exception of certain functions that are reserved for decision by Council.</p> <p>A list of functions is set out in Standing Orders.</p>
3.31 Ensure the Chief Executive is responsible and accountable to the authority for all aspects of operational management	<p>Responsibility for the appointment of the Chief Executive is reserved to Council.</p> <p>The Chief Executive has overall corporate management and operational responsibility (including overall management responsibility for and authority over all Officers.</p> <p>The Chief Executive is responsible for advice to Members on strategy, policy, management and organisation and has primary responsibility for ensuring that decisions taken by Council are taken in accordance with proper processes and after full considerations of all relevant facts, circumstances and legal advice where necessary.</p> <p>The Chief Executive may include any item on the agenda of Council if necessary, having notified the Chairman, and will be given the opportunity to comment on every report submitted to a decision-making body.</p>
3.32 Develop protocols to ensure that the Chairman and Chief Executive acknowledge their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained	The developing Protocol on Member/Officer Relations gives guidance on communication between Officers and Members in their various roles, including guidance on the advice and information Members can expect from Officers.

<b>The Six Core Principles of Governance</b>	
<b>The Requirement</b>	<b>How the Council will demonstrate compliance</b>
3.33 Ensure the Director of Finance (section 151 officer) is responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control	The Director of Finance and Resources has been appointed as the Section 151 Officer and is responsible for the supervision of all accounts and financial records, the organisation of all accounting systems, in co-operation with the Chief Officers of the Council.
3.34 Ensure a senior officer (other than the Responsible Finance Officer) is responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with	The Head of Finance and Reporting is responsible for ensuring that agreed financial procedures and statutes are followed and complied with.  Reports to Policy and Resources Committee show compliance with procedures and statutes. Any lapse is reported together with details of the corrective action taken.
3.35 Develop protocols to ensure effective communication between Members and Officers in their respective roles	A Communication Strategy has been approved by Council and took effect from December 2006.
3.36 Set out the terms and conditions for remuneration of Members and Officers and an effective structure for managing the process including an effective remuneration panel (if applicable)	The Council of the Isles of Scilly Members' Allowance Scheme took effect from 1 April 2006.  The Members' Allowance Scheme forms part of the Members Handbook and includes sections on special responsibility allowance, part year entitlements and special responsibilities.

<b>The Six Core Principles of Governance</b>	
<b>The Requirement</b>	<b>How the Council will demonstrate compliance</b>
3.37 Ensure that effective mechanisms exist to monitor service delivery	<p>Service delivery is monitored through:</p> <ul style="list-style-type: none"> <li>▪ National and Local Performance Indicators</li> <li>▪ Deficiencies brought to the attention of Chief Officers and Members</li> <li>▪ Corporate complaints are monitored to identify weaknesses and drive improvement</li> <li>▪ Employee and Chief Officer Performance Reviews</li> <li>▪ Customer Satisfaction Survey</li> </ul>
3.38 Ensure that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated	<p>The Council's Vision and objectives as set out in the Sustainable Community Strategy were developed through consultation with the community and partners.</p> <p>Consultation has been arranged in June 2011 for a new Community Plan.</p> <p>The Council's Service Plans are published on the website</p>
3.39 When working in partnership ensure that Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority	The Council is in the process of producing a register of partners to include allocation of the roles and responsibilities of Members in relation to the partnership.
3.40 When working in partnership:	The Council is in the process of producing a register of partners, including resource responsibility and governance arrangements.
<ul style="list-style-type: none"> <li>▪ ensure that there is clarity about the legal status of the partnership</li> </ul>	Co-opted Members are required to sign an agreement on legal duties and

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The Requirement	How the Council will demonstrate compliance
<ul style="list-style-type: none"> <li>ensure that representatives or organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions.</li> </ul>	responsibilities.
3.41 Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect	<p>The Member and Officer induction programme promotes openness, support and respect and is formalised within the Members and Officers Handbook.</p> <p>Values of good governance are emphasised in the training programme for Members and Officers.</p>
3.42 Ensure that standards of conduct and personal behaviour expected of Members and staff, of work between Members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols	<p>The Authority develops and maintains good standards of conduct for the Members, Officers and its employees and stakeholders.</p> <p>New employees are provided with a pack containing a number of codes of conduct, including Disciplinary procedures, equal opportunities, fraud and corruption, grievance procedures and internet and e-mail policy. As policies are introduced, updated or refreshed all staff are made aware of this and referred to the intranet to read the policies.</p>
3.43 Schedule arrangements to ensure that Members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice	Equality and Diversity training has taken place for Members and staff to ensure the Authority is not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders.



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<b>The Requirement</b>	<b>How the Council will demonstrate compliance</b>
3.44 Develop and maintain shared values including leadership values both for the organisation and staff reflecting public expectations and communicate these with Members, staff, the community and partners	<p>Members and Officers values are set out in the Sustainable Community Strategy that supports the objectives, reflecting the community's expectations.</p> <p>Policies and plans are communicated through Council meetings, partnership meetings, the Council website and intranet and via newsletters to the community.</p>
3.45 Schedule arrangements to ensure that procedures and operations are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice	<p>The developing protocol for Member/Officer relations will ensure that processes are operated in an effective, appropriate and ethical manner.</p> <p>National and local measures are in place to safeguard against unfair bias, prejudice or conflicts of interest.</p> <p>The Chief Executive has been designated as the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations.</p> <p>The Monitoring Officer reports to Members should any proposal, decision or omission give rise to unlawfulness or maladministration.</p> <p>The Standards Committee meet at least three times per year.</p>
3.46 Develop and maintain an effective standards committee	<p>The Standards Committee includes seven Members of the Council plus three independent Members with voting rights, one of the independent Members serving as the Chairman.</p> <p>The Standards Committee meet at least three times per year.</p>
3.47 Use the organisation's shared values to act as a guide for decision making and as a basis for	The Code of Conduct and Planning Protocol within the Members and Officers handbook

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<b>The Requirement</b>	<b>How the Council will demonstrate compliance</b>
developing positive and trusting relationships within the authority	<p>ensures that Members and Officers know what is expected of them.</p> <p>The shared values of the Members and Officers are demonstrated by the positive attitudes and trusting relationships within the authority and the decision making processes.</p>
3.48 In pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behaviour both individually and collectively	The Council is considering a way forward in respect of an agreed set of values for partnership arrangements.
3.49 Develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the organisation's performance overall and of any organisation for which it is responsible	<p>Full Council is the scrutinising body and provides overall direction to the organisation and satisfying reasonable expectations of accountability.</p> <p>Council meetings are open to the public with the exception of confidential or personal matters being disclosed.</p> <p>Councillors are made aware of significant policy related proposals and service reviews through reports taken to the appropriate committee. Councillors have the opportunity to discuss and challenge the performance of the Council.</p>
3.50 Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based	<p>All meetings are open to the public with the exception of confidential or personal matters being disclosed.</p> <p>Major meetings are web cast for those who cannot attend the meeting or wish to view the decisions at a later time.</p>

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<b>The Requirement</b>	<b>How the Council will demonstrate compliance</b>
3.51 Arrangements are put in place to safeguard Members and employees against conflicts of interest and appropriate processes are put in place to ensure that they continue to operate in practice	<p>Members register their interests as defined in the Members' Code of Conduct approved at Annual Council.</p> <p>Officers and employees register their interests as defined in the Officers Code of Conduct approved at Full Council.</p> <p>Members and Officers declare a personal or prejudicial interest at the start of each meeting in any discussions involving a matter in which they have an interest, and again as the matter falls to be discussed.</p> <p>Induction training for Members and Officers reinforces the rules on conflicts of interest.</p> <p>The Monitoring Officer may be approached for advice on conflicts of interest.</p>
3.52 Develop and maintain an effective audit committee (or equivalent) which is independent or make other appropriate arrangements for the discharge of the functions of such a committee	<p>The Council has a Policy and Resources Committee that has delegated powers from Full Council and sits three times per year.</p> <p>The Policy and Resources Committee consists of the Chairmen of each standing committee, with the exception of Standards and Licensing committees and any select committee.</p>
3.53 Arrangements are put in place to ensure effective, transparent and accessible arrangements for dealing with complaints	<p>Procedures for complaints are publicised on the website and forms are available on the website, in the Town Hall reception and on request.</p> <p>The Chief Executive has been designated as the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations.</p> <p>The Monitoring Officer reports to Members should any proposal, decision or omission</p>

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<b>The Requirement</b>	<b>How the Council will demonstrate compliance</b>
	give rise to unlawfulness or maladministration.
3.54 Ensure that those making decisions whether for the authority or partnership are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications	<p>All reports to Members are required to include justification for the proposed action with environmental impact, financial, legal, crime and disorder, best value and community health implications.</p> <p>Reports are sent to decision makers with the agenda of the meeting on a timely basis.</p>
3.55 Ensure that professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately	Professional opinion where appropriate is sought and implications are included on every report sent to Members prior to each committee meeting.
3.56 Ensure that risk management is embedded into the culture of the organisation , with Members and managers at all levels recognising that risk management is part of their job	<p>The Council has implemented a framework for risk management.</p> <p>The Corporate Risk Management Strategy 2010-13 has been approved by Council and is communicated to all Members and employees and is published on the internet and intranet.</p> <p>Risk management is embedded in the activity of the authority through the business plan, service planning and contract management stages. A Corporate Risk Register identifies the benefits of active risk management.</p> <p>The process for ongoing risk management is the responsibility of the Strategic Management Team and Chief Officers. Senior Management Team review the risk registers quarterly.</p>

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	<p>Departmental Risk Registers linked to service plans have been implemented to identify risk management at a departmental level and are the responsibility of the Service Managers.</p> <p>The Council has developed a programme of risk management training for relevant staff and Members on assessing, managing and monitoring of risk.</p> <p>A corporate approach to risk management to identify and evaluate risk is disseminated to staff at induction and awareness sessions.</p> <p>Project and Contract Managers are aware of the risks in partnership working and risk assessments are undertaken before commencement of major projects and reviewed and reported on a regular basis.</p>
3.57 Ensure that arrangements are in place for whistle blowing to which staff and all those contracting with the authority have access	Communication of internal control processes to staff forms part of the staff induction process and includes Confidential Reporting, Managing Financial Irregularities (whistle-blowing) and Code of Conduct policies.
3.58 Actively recognise the limits of lawful activity placed on them by, for example the ultra vires doctrine but also strive to utilise powers to the full benefit of their communities	<p>A programme of awareness training for Members and has been developed, to be included in induction training.</p> <p>Issues of vires are dealt with by early involvement of the Council's legal advisors in all major projects to ensure a lawful solution for the benefit of the community.</p>

<b>The Six Core Principles of Governance</b>	
<b>The Requirement</b>	<b>How the Council will demonstrate compliance</b>
3.59 Recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on local authorities by public law	Early involvement of the Council's legal advisors in all major issues to ensure a lawful solution for the benefit of the community.
3.60 Observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law – rationality, legality and natural justice into their procedures and decision making processes	<p>Early involvement of the Council's legal advisors in all major issues to ensure a lawful solution for the benefit of the community.</p> <p>Each report to Committee informs Members of whether legal advice is necessary and the results of that advice if sought.</p>
3.61 Provide induction programmes tailored to individual needs and opportunities for Members and Officers to update their knowledge on a regular basis	<p>All new Councillors and Officers are offered an induction programme to give information on their basic rights, roles and responsibilities and how the Council works.</p> <p>Induction information is to be found within the Members and Officers Handbook.</p> <p>The ongoing training programme for Members and Officers is monitored and arranged through the Democratic Processes Review Group and offers up to date knowledge through in-house seminars and training workshops and external courses and conferences.</p>
3.62 Ensure that the statutory Officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the organisation	The Council has a Chief Officer Performance and Development Programme that offers the opportunity for each Officer to participate in a performance related interview on a regular basis, with the primary purpose of agreeing individual work targets that relate to the delivery of services to the Community and to discuss the skills and support

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	<p>needed to perform those tasks.</p> <p>Quarterly Service Managers Meetings are part of the Performance Management improvements to assist in the awareness of the Council's corporate values and assist learning of new starters and improve senior management visibility.</p> <p>Information is passed on from the Quarterly meetings to the departments by Service Managers.</p>
3.63 Assess the skills required by Members and Officers and make a commitment to develop those skills to enable roles to be carried out effectively	<p>Learning and development needs are established at induction to influence future development and influence the range of activities to be offered.</p> <p>As part of the ongoing training programme and following consultation with Members, the needs of the Members are considered and arrangements made for activities to be offered.</p>
3.64 Develop skills on a continuing basis to improve performance including the ability to scrutinise and challenge and to recognise when outside expert advice is needed	<p>The Council is aware that its most important resource is the staff that delivers the services to the community. To provide a quality service to all residents and visitors, an effective staff performance and development programme is necessary to improve and maintain quality services.</p> <p>Each member of staff is required to participate in a performance related interview on a regular basis, with the primary purpose of agreeing individual work targets that relate to the delivery of their Departmental Service Plan that arises from both the Sustainable Community Strategy and the Local Area Agreement.</p>

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	<p>The Staff Performance and Development Programme encourages staff to analyse, scrutinise and challenge, and to recognise the need for expert advice through discussions on a one to one basis with their line manager or Chief Officer.</p> <p>Members, Officers and staff effect learning and development through access to the intranet, e-learning, training courses, workshops, Members' seminars and conferences, mentoring and peer support.</p> <p>Some training sessions and workshops held in the Council Chamber are recorded on the web-casting facility for those staff and Members who are unable to attend at the time of the session.</p>
3.65 Ensure that effective arrangements are in place for reviewing the performance of the authority as a whole and agreeing an action plan which might for example aim to address any training or development needs	<p>A Performance Management Group has been established to develop an improved Performance Monitoring and Development system for the Council.</p> <p>Individual Members are encouraged to identify needs for development, although there is no formal process for reviewing individual Members.</p> <p>The 'Grow Your Own' project has been developed. This hopes to address various recruitment and retention issues around appropriately qualified staff and housing.</p>
3.66 Ensure that effective arrangements designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority	<p>Information leaflets are distributed throughout the community prior to elections and by-elections to encourage individuals from the community to contribute to the work of the Council.</p> <p>Individuals are encouraged to participate in the work of the Council through extensive consultation on plans and strategies such as the Sustainable Community Plan and the</p>



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	<p>Local Area Agreement.</p> <p>The Local Strategic Partnership has been formed by encouraging the community to be involved and has the active involvement of young people within the partnership.</p> <p>The 'Council Calendar', 'News' and 'What's on', on the Council website, informs the community of forthcoming meetings, events and items in which the community is able to participate.</p> <p>Members of the community are encouraged to become co-opted Members, with voting rights, and advisors for certain Council Committee meetings.</p>
3.67 Ensure that career structures are in place for Members and Officers to encourage participation and development	<p>Members are encouraged to use their skills in progressing to Chairman or Vice-Chairman of individual Committees with ultimate progression to Chairman or Vice-Chairman of the Council.</p> <p>Every opportunity is taken to progress a career structure within the Council of the Isles of Scilly; existing staff have equal access to job opportunities through internal notice boards and the media.</p> <p>Staff are responsible for progressing their own development and are encouraged to participate in training courses and workshops to progress their career and advance their capacity and capabilities to work within the Council setting.</p> <p>A variety of training courses and workshops are offered to Members and Officers in a wide range of subject areas.</p>

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<b>The Requirement</b>	<b>How the Council will demonstrate compliance</b>
3.68 Make clear to Members, Officers and the community to whom they are accountable and for what	<p>The Council's vision, priorities and values are published in the Sustainable Community Strategy, Local Area Agreement and Service Plans. These include performance targets.</p> <p>The Council's Standing Orders and Financial Regulations inform Members and Officers of their obligations and processes.</p>
3.69 Consider those institutional stakeholders to whom they are accountable and assess the effectiveness of the relationships and any changes required	Arrangements are to be reviewed for the content and publication of the annual report on the work of stakeholder committees and consider whether it should be given a higher profile.
3.70 Produce an annual report on scrutiny function activity	An Annual Report (Lighthouse) is produced in June/July, to inform the community of the performance of the authority over the previous year and set out the plans for the future.
3.71 Ensure that clear channels of communication are in place with all sections of the community and other stakeholders including monitoring arrangements to ensure that they operate effectively	<p>The Communication Strategy ensures the Council communicates clearly, openly and regularly with the public, partners and with each other to promote a high level of mutual understanding and to facilitate a better service to the island community.</p> <p>The Communication Strategy is a key tool in ensuring the Authority's successful delivery of our vision statement.</p> <p>The Council Committee Calendar is published on the Council website and agendas, minutes and reports may be downloaded.</p> <p>News, policies and information for the public and staff are to be found on the website and the developing intranet will inform staff of up to date information.</p>

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	<p>The public are able to view various Council meetings that are web-cast for those who are unable to attend the Council Chamber in person; the web-casts are recorded and can be downloaded for those who are unable to watch the meeting at the allocated time.</p> <p>Where there is expected to be a large public interest, the meetings are web-cast in the Town Hall for those who do not have internet access.</p> <p>Staff newsletters are distributed to all staff on a monthly basis.</p> <p>A bi-monthly 'Lighthouse' newsletter is available at various distribution centres to inform the public and stakeholders of recent events and up to date information.</p>
3.72 Hold meetings in public unless there are good reasons for confidentiality	Council meetings are open to the public with the exception of 'exempt and confidential information' for which the public are asked to leave the Council Chamber.
3.73 Ensure arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands	<p>The Communication Strategy and the Local Area Agreement aim to ensure that the island community is well informed and is involved in consultation to influence what happens on the islands.</p> <p>The public is able to view various Council meetings that are web-cast for those who are unable to attend the Council Chamber in person; the web-casts are recorded and can be downloaded for those who are unable to watch the meeting at the allocated time.</p> <p>Where there is expected to be a large public interest, the meetings are web-cast to a large screen in the Town Hall for those who do not have internet access.</p>

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<b>The Requirement</b>	<b>How the Council will demonstrate compliance</b>
	<p>Community Strategy leaflets are distributed throughout the islands to every household.</p> <p>Council meetings are arranged in the mornings during winter and evenings during the summer to enable off-island participation.</p> <p>Booklets are produced for local access information and are distributed to migrant and seasonal workers. These workers also receive a welcome talk from the Community Safety Officer and the Community Police Support Officer.</p> <p>Strategies and Policies can be produced in alternative formats, such as Braille, audio or alternative languages, on request.</p> <p>A written or oral translation service is available on request.</p> <p>Review questionnaire to Migrant and Seasonal workers informs the Council of difficulties and response to the services provided.</p> <p>The Authority has adopted a 'Single Equality Scheme', and has established an Equality and Diversity working group. There are representatives from across the organisation, as well as a Member with the role of Equality champion. The authority is committed to equality monitoring, training, internal and external consultation and Equality Impact Assessments to ensure that all the diverse groups within the community are recognised and engaged with.</p>
3.74 Establish a clear policy on the types of issues they will meaningfully consult on or engage with the public and service users including a feedback	<p>Consultation is an integral part of any large project plan.</p> <p>Results of consultations are communicated to the public via the website and</p>

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The Requirement	How the Council will demonstrate compliance
mechanism for those consultees to demonstrate what has changed as a result	<p>publications to inform of the influence the consultation has had on the project.</p> <p>The public are encouraged to give comments, compliments and complaints in order for the Members and Officers to achieve a greater understanding of the views of residents and visitors.</p> <p>When faced with a decision making situation, the comments, compliments and complaints from the public assist Members who are more able to respond to conflicting views of residents and take into consideration other influencing factors such as resources, statutory requirements and partner organisations' views.</p>
3.75 Publish a performance plan on an annual basis giving information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period	<p>The Council's vision, priorities and values are published in the Sustainable Community Strategy and Service Plans. These include performance targets.</p> <p>Financial Statements are published on the website annually, including the Annual Governance Statement.</p> <p>Outcomes and achievements are to be communicated to the public and stakeholders in the Annual Report (Lighthouse).</p>
3.76 Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to	<p>The Communication Strategy ensures the Council communicates clearly, openly and regularly with the public, partners and with each other to promote a high level of mutual understanding and facilitate a better service to the island community.</p> <p>The Council website includes the Council Calendar of meetings where agendas, minutes and reports may be downloaded together with community news, council policies and information for the public.</p>

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<b>The Requirement</b>	<b>How the Council will demonstrate compliance</b>
do so	<p>Staff have access to all policies and strategies on the website and intranet.</p> <p>Quarterly meetings have been re-established as part of the improvements of the Performance Management Group to ensure information is exchanged and updated upward and Service Managers share the information downwards to the staff in their respective departments.</p> <p>The public are able to view various Council meetings that are web-cast for those who are unable to attend the Council Chamber in person; the web-casts are recorded and can be downloaded for those who are unable to watch the meeting at the allocated time. Where there is expected to be a large public interest, the meetings are web-cast in the Town Hall for those who do not have internet access.</p> <p>The public are able to access information held by the Council under the terms of the Freedom of Information Act 2000 through the Central Services.</p> <p>The Local Standards Committee make an initial assessment of misconduct allegations.</p> <p>Staff newsletters are distributed to all staff on a regular basis and a bi-monthly 'Lighthouse' newsletter is available at various distribution centres to inform the public and stakeholders of recent events and up to date information.</p>
3.77 Develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making	<p>Consultation with staff forms part of the Communication Strategy and is published on the Council website and intranet.</p> <p>Staff are encouraged to participate in decision-making and problem solving through meetings and surveys.</p>

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<b>The Requirement</b>	<b>How the Council will demonstrate compliance</b>
	<p>A Staff Mediation Service provides assistance and is available to all staff.</p> <p>The Council works in partnership with the Trade Unions and a representative is on hand to assist staff with queries and advice.</p> <p>Human Resources meet representatives of the Trade Union on a monthly basis and information is passed on to staff via the Trade Union representatives.</p>
<b>No Element of Governance</b>	
Principal Risks to Achievement of Objectives	
3.78	<p>The Risk Management Strategy has the full support of the Councillors and Corporate Management Team and has been approved by Senior Members.</p> <p>All relevant Staff, Members and partners are made aware of the Risk Management Strategy through Council meetings and workshops. The strategy is accessible to staff, Members and the public on the Council's website and intranet.</p> <p>Reviews of the risk management process are undertaken by the Senior Management Team.</p>
3.79	<p>The Council has systems and processes in place for the identification and management of strategic and operational risk.</p> <p>The process for ongoing risk management is the responsibility of the Strategic Management Team and Chief Officers. Principal Risks are monitored by the Strategic Management Team at least quarterly.</p>

No	Element of Governance
	<p>Risk management is embedded in the activity of the authority through the business plan and service planning stages.</p> <p>The Chairman of Policy and Resources Committee has the role of Member Risk Champion; the Strategic Development Officer has the role of Officer Risk Champion. The Corporate Governance Lead is the designated officer for Risk Management.</p> <p>The Risk Management Strategy contains clear definitions of the roles and responsibilities for risk identification, management and reporting throughout the Authority, including Internal Audit, Project Managers and partners.</p>
3.80	<p>The Council has a programme of risk management training for relevant staff and Members on assessing, management and monitoring of risk. A corporate approach to risk management to identify and evaluate risk is disseminated to staff at induction and awareness sessions.</p> <p>A Guide to Risk Management setting out the framework for risk analysis has been approved and communicated via the intranet and workshops.</p>
3.81	<p>The Authority's framework for risk analysis, recording and reporting risk is well defined within the Guide to Risk Management. The framework is communicated to all staff and stakeholders via the intranet and workshops.</p> <p>A Corporate Risk Register identifies the benefits of active risk management at a strategic level; Departmental Risk Registers linked to service plans identify risk management at operational level.</p>
3.82	<p>The authority has an arrangement for financing risk, including requirements for insurance being met and monitoring of incidents of claims and reporting the results of those claims. Periodic reviews of all insurances are the responsibility of the Chief Officers.</p>
3.83	<p>Following the approval and adoption of the new risk management framework in July 2007, and In order to meet objectives set out in the Risk Management Strategy, a programme of training workshops took place for Chief Officers and Service Managers. Further training workshops took place during 2009 for Members and remaining staff. New staff and partners receive induction training.</p> <p>Evaluation of the workshop sessions has shown that the updated framework has improved the understanding of the approach to Risk Management and the perception of its importance through all levels of the authority.</p>



No	Element of Governance
3.84	<p>The Democratic Processes Review Group has the role of overall co-ordination of risk management throughout the Authority.</p> <p>Reviews of the risk management process are undertaken by the Senior Management Team, including procedures for recording and reporting risk, identifying areas of overlapping risk, reviewing risk training and reviewing risk registers. Changes are reported to Members and Management.</p> <p>The Senior Management Team reviews the Corporate and Departmental risk registers at least twice annually. The Strategic Management Team monitors principal risks at least quarterly.</p>
3.85	<p>The Corporate Governance Lead is the designated officer for Risk Management with the role of management and implementation of the risk management framework, strategy and process on behalf of the Council. Responsibilities include providing the council with guidance, advice and support on risk management, managing the performance of the risk management process and reporting on the effectiveness and implementation of the strategy, supporting the risk champions in delivering their role and ensuring all appropriate staff are adequately trained in risk management and risk assessment techniques.</p>
3.86	<p>The Risk Management Strategy defines the role of the Service Managers for ensuring staff are aware of risk management and their roles within the organisational structure. Service Managers' responsibilities include communicating the corporate approach to risk management to staff, identifying training needs of staff and reporting these to the Corporate Governance Lead, seeking clarification on corporate risk requirements from the Corporate Governance Lead and passing on the information to all staff, and supporting the Corporate Governance Lead and Officer Risk Champion in their role by facilitating the effective operation of the risk management within their department.</p>
3.87	<p>Risk management is embedded into the authority's business systems to ensure that risk management is an intrinsic part of the way business is conducted and is a part of the corporate planning process linked to business continuity and performance management. At all levels, the levels of activity support each other, is led from the top and is part of the normal working routines and activities of the organisation. Training is planned to ensure that all staff are aware of the relevance of risk to the achievement of their objectives.</p>
3.88	<p>Project Managers and partners are made aware of the risks in partnership working and risk assessments are undertaken before commencement</p>

No	Element of Governance
	<p>of major projects and are reviewed and reported on a regular basis.</p> <p>The Contract Management Framework assists in identifying risks of partnership working and to identify risks associated with the project.</p>
	Controls to Manage Principal Risks
3.89	<p>The authority has systems and procedures to mitigate principal risks. The Council of the Isles of Scilly has adopted CIPFA’s “Code for Treasury Management in Local Authorities”. Management of investments is the responsibility of the Director of Finance and Resources under the direction of the Policy and Resources Committee and at all times follows the principles laid down in CIPFA’s “Code of Guidance on Treasury Management for Local Authorities”. The Prudential Indicators continue to be considered to ensure compliance with the Prudential Code.</p> <p>Financial Regulations contained within the Council’s Handbook set out the overall framework that governs the management of the Council’s finances.</p>
3.90	The Council’s Standing Orders have been formally adopted, are contained within the Council’s Handbook, and are reviewed periodically and communicated to all staff via the internet and intranet.
3.91	Communication of internal control processes to staff forms part of the staff induction process and includes Confidential Reporting, Managing Financial Irregularities (whistle-blowing) and Code of Conduct policies. These policies are reviewed periodically and communicated to all staff.
3.92	<p>The Council’s Anti Fraud and Corruption Policy has been adopted and is widely communicated to all staff and the public via the Council’s website and intranet.</p> <p>A Register of gifts and hospitality is maintained, reviewed and updated annually.</p>
3.93	A Code of Conduct has been formally adopted and is communicated to staff as part of the staff induction process. The Code of Conduct policy is reviewed periodically and communicated to all staff via the intranet.
3.94	A Register of Interests, identifying the declarable interests of Members and Officers in relation to community and life interests, is reviewed and

No	Element of Governance
	updated annually.
3.95	The Council is developing a Scheme of Delegation that incorporates adequate controls and sanctions and has been adopted by Council.
3.96	<p>A Corporate Procurement Strategy has been formally approved and widely communicated to staff and stakeholders via the Council's website and intranet. The procurement policy is reviewed and updated regularly to take account of new initiatives.</p> <p>A Procurement Guide, for those staff dealing with procurement, has been produced and approved by Members and is published on the intranet. The Guide is reviewed on a regular basis.</p> <p>A Contract management Framework has been produced in order to monitor service level agreements and contracts from introduction to the end of the contract, and is published on the intranet.</p> <p>The Contract Management Framework was produced and implemented in order to monitor service level agreements and contracts from introduction to the end of the contract, and is published on the intranet. This has assisted in ensuring all parties to a contract meet their obligations to deliver the objectives required from the contract and achieve value for money. Risks are identified by all parties early in the relationship and continued monitoring and review takes place during each year.</p> <p>All contractors working for the Council are required to demonstrate compliance with the Council's Policies, Standing Orders and Financial Regulations with regard to such matters as Equality and Diversity, Environmental protection and so forth.</p>
3.97	A framework for the delivery of the Authority's Business Continuity Programme has been agreed and the initial stage completed. The Council lists over 100 services provided to the community and a review of these has resulted in the production of a Corporate Critical Services Priority Report. Business Impact Analyses are currently being conducted for the most critical of these services.
3.98	The Corporate Risk Register identifies, addresses and monitors principal risks. Departmental Risk Registers identify risks from the Service Plan objectives, addresses and monitors risks.

No	Element of Governance
	<p>Risk owners are assigned to each risk in order for the principal risks to be managed and controlled.</p> <p>Risk Management workshops have taken place for Chief Officers and Service Managers to underpin the principles of the Authority's Risk Management Framework. Further workshops will be provided for staff and Members as required.</p>
3.99	All risk registers are reviewed by Service Managers at least twice annually.
3.100	The Internal Control framework is subject to regular assessment and is planned to be developed further. The Council has an objective and professional relationship with external auditors and statutory inspectors.
3.101	The corporate Health and Safety policy has been updated and following consultation with the newly formed Health and Safety Advisory Group is to be reported to Members for final approval. Following final approval, this is to be communicated to all staff via training, information and the Council's website and intranet.
3.102	<p>A corporate complaints procedure has been formally approved. Members of the public and other stakeholders are made aware of the complaints procedure and policy in operation by leaflet distribution and are included on the Council's website and intranet.</p> <p>The public is able to register their dissatisfaction with services of the Council or its staff via the complaints procedure that can be accessed on the website or by hard copy from the Town Hall and are able contact the Ombudsman through the complaints system.</p>

#### 4. Review Of Effectiveness

The Council of the Isles of Scilly has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework including the system of internal control. The review of the effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework is:

No	Effectiveness of controls
4.1	<p>The responsibility for maintaining and reviewing the system of internal control rests with the authority.</p> <p>Internal Audit reviews internal controls in operation within each service area. External sources of assurance are received from such agencies as the Audit Commission, OfSTED, the Benefit Fraud Inspectorate and other agencies relevant to the Authority.</p>
4.2	<p>Key controls are identified within the Annual Governance Statement and progress reports including examples of assurances and evidence are sent to Chief Officers and relevant Service Managers to give guidance on monitoring the internal controls within their service area.</p>
4.3	<p>The Annual Governance Statement and progress reports, including examples of assurances and evidence and actual evidence of supporting documentation, are evaluated by the Strategic Management Team and reported to the Policy and Resources committee at least twice per year.</p> <p>Chief Officers and relevant Service Managers have the opportunity to review the controls and provide assurance statements at the end of the financial year.</p>
4.4	<p>External assurance reports are agreed and reviewed by Senior Management and action plans are prepared as appropriate. Reports are taken to the relevant committee and progress on recommendations is reported as appropriate.</p>
4.5	<p>Internal Audit reviews internal controls against known and evolving risks. Actions are planned and reported to Internal Audit. Reports including any recommendations are taken to the appropriate committee.</p>
4.6	<p>A monitoring system for obtaining and evaluating assurances of internal control by the assigned person is in place. Internal and External audit reports are received and reviewed by Chief Officers and Heads of Department, and are also reported to each meeting of the Policy and Resources Committee.</p>

No	Effectiveness of controls
4.7	Evidence is provided by Service Providers to ensure accuracy of the indicators and is monitored annually. Reports are taken to the relevant committee.
4.8	An Equality and Diversity Group has been established and meets at regular intervals to improve monitoring and management of Equality & Diversity.
4.9	A Grant Appraisal Committee has been formed and is intended to improve the quality of grant applications made by the Council of the Isles of Scilly and ensure they are deliverable and pose no reputational or financial risk.
4.10	Comprehensive arrangements continue to ensure the timely closedown and production of accurate financial statements for future years.
4.11	Improvements continue in the budget setting process, with Members and Officers fully involved. The Council has moved strongly to a balanced budget position and is strengthening monitoring and reforecasting processes.
4.12	<p>The Council has a rolling programme of Condition and Suitability surveys of all Council Assets. This work is part of a five year rolling assessment and maintenance programme. The survey provides structural information to enable the Council to better assess need in event of future funding application and to effectively develop long term plans for the configuration of Council facilities as evidenced by recent extension and refurbishment to parts of the Town Hall.</p> <p>The Council has adopted the Porthcressa Master Plan which focuses on the redevelopment/refurbishment of key Council assets including the rear of the Town Hall, Porthcressa shelter/Registry Office, library and Bulb store/garage.</p>
4.13	Further improvements are planned for the Human Resources strategy including improving the Council's systems which will aide succession planning.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Authority, the chief Officers, Internal Audit and external review, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

## 5. Significant Governance Issues

The following significant internal control issues have been identified:

No	Issue	Action Required	Evidenced by	Progress to date
5.1	There is no overarching Information Management and Technology (IM&T) strategy in place to aid the long-term planning of the organisation's IT department to best use IT in meeting the corporate business objectives.	Develop an IM&T strategy to aid long-term planning of the IT department to best use IT in meeting the Council's objectives.	Production of an ICT strategy document	The ICT department will work with all other departments to produce a coherent overarching strategy to aid the long term sustainability of the organisation. This will be initially drafted within 12 months.
5.2	The IT risk register is developing and requires more work to identify, assess and take appropriate action to mitigate IT risks.	Complete and regularly review the IT risk register. Take appropriate action to mitigate the risks.	ICT entries in the risk register	As part of the ICT strategy, the ICT Officer will add the appropriate entries to the risk register.
5.3	The Council does not have an IT security policy on securing IT related assets. The absence of such a policy could result in an inconsistent approach to use of these resources and a lack of awareness of the need to protect information and use it legally.	Produce an IT security policy setting out how to secure IT related assets and how to protect information and use it legally.	ICT Acceptable Use Policy	The ICT Acceptable Use Policy approved by Members on 16 February 2010 will be updated in line with current timetables. This policy explains users' responsibilities with regard to the use of ICT and data.
5.4	There are no enforceable password controls in place for the Sage Line 200 accounting system which is a limitation of Sage Line 200. Weak password controls increase the risk of	Work with the 3rd party supplier of the Sage accounting system to explore ways of improving	Possible upgrades of the software.	There have been discussions with the supplier and it is not possible to impose password policies in the current iteration of Sage Line 200. There will be

No	Issue	Action Required	Evidenced by	Progress to date
	an individual gaining unauthorized access to sensitive data, the ability to initiate transactions and cause deliberate destruction or manipulation of data.	password controls.		investigations about the capabilities of later versions of the software.
5.5	The Council does not have an End User Computing [EUC] policy describing the management of EUC, the responsibilities of the development owner and the acceptable instances of use of EUC. An EUC policy is important for spreadsheets used to support the Statement of Accounts. Without such a policy there is risk of insufficient control over developments.	Produce an End-User Computing policy which describes the controls required for spreadsheets used to support the Statement of Accounts.	ICT Acceptable Use Policy	The ICT Acceptable Use Policy approved by Members on 16 February 2010 will be updated in line with current timetables. This policy explains users' responsibilities with regard to the use of ICT and data.
5.6	The trial balance was reviewed to confirm the total debits were equal to the total credits. An imbalance of £0.01 was found and, although clearly trivial, the Finance team should implement a regular control to ensure that the general ledger is in balance.	Implement a regular control to check that the total debits equal the total credits in the general ledger.	Monthly check and reconciliation	Implemented
5.7	Reviews in 2008/09 and 2009/10 identified that the payroll system did not reconcile to the general ledger. It was recommended that the Head of Finance and Reporting reconcile the two systems monthly. This control is still	Reconcile the payroll system to the general ledger monthly.	Reconciled at 2010/11 year end and monthly checks now in	Implemented



No	Issue	Action Required	Evidenced by	Progress to date
	not in place. The Human Resources and Organisational Development Manager will reconcile the payroll system to the general ledger at 31 March 2011, and monthly thereafter.		place	
5.8	There is no evidence that the debtors, creditors or national non-domestic rates reconciliations are reviewed by an appropriate independent officer. In addition, the bank reconciliation had been completed but not reviewed. To strengthen the controls, all feeder system reconciliations and the bank reconciliation should be reviewed by an appropriate officer, and evidence of this review retained.	Ensure feeder system reconciliations to the general ledger and the bank reconciliation are reviewed by an appropriate officer and evidence of review retained.	Monthly checks	Implemented

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: .....

Signed: .....

Dated: .....

Dated: .....

**Chairman of the Council**

**Chief Executive**

## Glossary of Terms

The definitions within the glossary are designed to provide the user with an understanding of the technical terminology contained within the Statement of Accounts.

TERM	DEFINITION
<b>Accounting Policies</b>	These are the policies and codes of practice adopted when preparing the Statement of Accounts.
<b>Accrual</b>	A balance included to ensure that income or expenditure attributable to the financial year for goods or services supplied and received or work done in the year but for which payment was not made by the year end.
<b>Actuarial Gain or Loss</b>	The change in actuarial deficits or surpluses that arise because either the actual events during the year have not coincided with the actuarial assumptions made at the last valuation, or because the actuarial assumptions have changed.
<b>Actuarial Valuation</b>	A valuation of assets within the pension fund carried out by an actuary (an independent pension valuation specialist).
<b>Balance Sheet</b>	This statement shows the financial position of the Authority as at the end of the financial year.
<b>Budget</b>	A statement of the Authority's financial plans for a specific period of time prepared in line with the approved service plans and MTFS for the Authority in advance of the financial year.
<b>Capital Expenditure</b>	Expenditure on new assets or on the enhancement of existing assets which extends their useful life or increases their market value.
<b>Capital Financing Requirement (CFR)</b>	This is the amount of Capital Expenditure financed by external debt and not by Capital Receipts, Revenue Contributions, Capital Grants or Third Party Contributions at the time of spending. It measures the Authority's underlying need to borrow for a capital purpose.
<b>Capital Grant</b>	Grant received for the purpose of funding Capital Expenditure.
<b>Capital Grants Unapplied</b>	Capital Grants that have not been spent during the financial year.

TERM	DEFINITION
<b>Capital Receipts</b>	Proceeds, exceeding £10,000, from the sale of an asset for which the use is restricted to either funding new Capital Expenditure or to repaying loan debt.
<b>Chartered Institute of Public Finance and Accountancy (CIPFA)</b>	The professional body for accountancy within the public sector.
<b>Code of Practice (Code)</b>	This is the guidance issued by CIPFA on the application of the IFRS for the public sector.
<b>Comprehensive Income and Expenditure Statement (CIES)</b>	This statement shows the financial performance of the Authority during the financial year. It details the surplus or deficit on the provision of service and includes details of the unrealised gains and losses (e.g. revaluations) for the Authority.
<b>Corporate &amp; Democratic Core</b>	The costs associated with corporate policy making and member based activities, together with costs relating to corporate management, public accountability and treasury management.
<b>Creditor</b>	An amount owed by the Authority for goods or services received before the end of the financial year for which the payment had not been made at the date of the Balance Sheet.
<b>Current Service Cost (Pensions)</b>	This is a measure of the increase in the present value of pension liabilities generated in the financial year by employees. It is an estimate of the true economic cost of employing people in the financial year, earning service that will eventually entitle them to the receipt of a lump sum and/or pension when they retire.
<b>Debtor</b>	An amount owed to the Authority at the Balance Sheet date for goods or services provided prior to the year end.
<b>Deficit</b>	Where the balance of expenditure exceeds the balance of income.
<b>Depreciation</b>	The measure of the consumption or other reduction in the useful economic life of a non-current asset.
<b>Earmarked Reserves</b>	Reserves representing monies set aside that can only be used for their stated specific “earmarked” services.
<b>Emoluments</b>	All taxable sums paid to or received by an employee including the value of any none cash benefits received.

TERM	DEFINITION
<b>Finance Lease</b>	A lease whereby the risks and rewards of ownership are transferred to the lessee.
<b>Financial Reporting Standard (FRS)</b>	The standards by which the preparation and presentation of the Statement of Accounts has historically been governed within the UK
<b>Financial Year</b>	The year covered by the financial statements. The Authority's financial year commences 1 April and finishes 31 March the following year.
<b>General Fund (GF)</b>	This reserve is to provide for unexpected expenditure that cannot be managed within existing budgets, it is not earmarked or restricted and can be used at the discretion of the Members.
<b>Housing Revenue Account (HRA)</b>	This is a statutory account recording the revenue expenditure and income relating to the Authority's housing stock.
<b>Impairment</b>	A reduction in the value of a non-current asset arising from damage, obsolescence or a reduction to the useful economic life, but not arising as a result of a formal revaluation.
<b>International Financial Reporting Standard (IFRS)</b>	The international standards by which the preparation and presentation of the Statement of Accounts is now governed. These are developed by the International Accounting Standards Board (IASB).
<b>Medium Term Financial Strategy (MTFS)</b>	The MTFS sets out the overall shape of the Council's budget by establishing how the available resources will be allocated against the Strategic priorities established in the Sustainable Community Strategy over the coming 3 year period.
<b>Minimum Revenue Provision (MRP)</b>	The amount which the Authority charges to revenue on an annual basis as a provision for the redemption of debt.
<b>Movement in Reserves Statement (MiRS)</b>	This statement details the movements in the reserve balances.
<b>Net Book Value</b>	The value at which non-current assets are included in the balance sheet after consideration for impairment, revaluation, enhancements, depreciation etc.

TERM	DEFINITION
<b>Non-Current Assets</b>	Assets which are of a physical nature owned by the Authority, such as land, buildings, vehicles etc.
<b>Operating Lease</b>	A lease which is not a Finance Lease.
<b>Operational Assets</b>	Non-current assets held / used by the Authority in the direct delivery of services for which it has a statutory responsibility.
<b>Past Service Cost (Pensions)</b>	These costs represent the increase in liabilities arising in the current year on retirement benefits where the years of service were earned in earlier years.
<b>Present Value</b>	The discounted value of future payments or receipts to show their value if they were to be received as at the balance sheet date.
<b>Professional, Technical and Administration (PT&amp;A)</b>	These are the costs arising from the central administration, technical and professional services within the Authority which support all of the activities carried out and do not arise solely from the provision of one service area.
<b>Public Works Loan Board (PWLB)</b>	A Government Agency that provides loans to Local Authorities.
<b>Remuneration</b>	Reward for employment in the form of pay, salary or wage, including allowances, benefits, bonuses, cash incentives and monetary value of non-cash incentives.
<b>Revenue Expenditure</b>	The day to day running costs incurred by the Authority in providing services.
<b>Revenue Financing</b>	Resources provided from the Authority's revenue budget to finance the cost of Capital Expenditure.
<b>Statement of Recognised Gains and Losses (STRGL)</b>	This statement detailed the unrealised gains and losses under the FRS.
<b>Statement of Recommended Practice (SORP)</b>	This is the guidance issued by CIPFA on the application of the FRS for the public sector.
<b>Surplus</b>	Where the balance of income exceeds the balance of expenditure.

TERM	DEFINITION
<b>UK Generally Accepted Accounting Practice (UK GAAP)</b>	The practice of preparing the Statement of Accounts that ensures compliance with UK legislation, UK accounting standards and best practice.
<b>Unusable Reserves</b>	These are reserves resulting from the interaction of legislation and proper accounting practices. These reserves are not resource backed and cannot be used for any other purpose.
<b>Usable Reserves</b>	These are held as a working balance of for a specific future purpose.